Y4. B22/1: 97-85

COSTS OF UNEMPLOYMENT

ORIGINAL

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
SECOND SESSION

AUGUST 12 AND 17, 1982

Serial No. 97-85

Printed for the use of the
Committee on Banking, Finance and Urban Affairs

COMPLETED

U.S. GOVERNMENT PRINTING OFFICE
99-460 O
WASHINGTON : 1982

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

FERNAND J. ST GERMAIN, Rhode Island, *Chairman*

HENRY S. REUSS, Wisconsin
HENRY B. GONZALEZ, Texas
JOSEPH G. MINISH, New Jersey
FRANK ANNUNZIO, Illinois
PARREN J. MITCHELL, Maryland
WALTER E. FAUNTROY, District of Columbia
STEPHEN L. NEAL, North Carolina
JERRY M. PATTERSON, California
JAMES J. BLANCHARD, Michigan
CARROLL HUBBARD, Jr., Kentucky
JOHN J. LaFALCE, New York
DAVID W. EVANS, Indiana
NORMAN E. D'AMOURS, New Hampshire
STANLEY N. LUNDINE, New York
MARY ROSE OAKAR, Ohio
JIM MATTOX, Texas
BRUCE F. VENTO, Minnesota
DOUG BARNARD, Jr., Georgia
ROBERT GARCIA, New York
MIKE LOWRY, Washington
CHARLES E. SCHUMER, New York
BARNEY FRANK, Massachusetts
BILL PATMAN, Texas
WILLIAM J. COYNE, Pennsylvania
STENY H. HOYER, Maryland

J. WILLIAM STANTON, Ohio
CHALMERS P. WYLIE, Ohio
STEWART B. McKINNEY, Connecticut
GEORGE HANSEN, Idaho
JIM LEACH, Iowa
THOMAS B. EVANS, Jr., Delaware
RON PAUL, Texas
ED BETHUNE, Arkansas
NORMAN D. SHUMWAY, California
STAN PARRIS, Virginia
ED WEBER, Ohio
BILL McCOLLUM, Florida
GREGORY W. CARMAN, New York
GEORGE C. WORTLEY, New York
MARGE ROUKEMA, New Jersey
BILL LOWERY, California
JAMES K. COYNE, Pennsylvania
DOUGLAS K. BEREUTER, Nebraska
DAVID DREIER, California

Subcommittee on Domestic Monetary Policy

WALTER E. FAUNTROY, District of Columbia, *Chairman*

PARREN J. MITCHELL, Maryland
STEPHEN L. NEAL, North Carolina
DOUG BARNARD, Jr., Georgia
HENRY S. REUSS, Wisconsin
JAMES J. BLANCHARD, Michigan
CARROLL HUBBARD, Jr., Kentucky
BILL PATMAN, Texas

GEORGE HANSEN, Idaho
RON PAUL, Texas
BILL McCOLLUM, Florida
BILL LOWERY, California
ED WEBER, Ohio
JAMES K. COYNE, Pennsylvania

Howard Lee, *Staff Director*

CONTENTS

Hearings held on:

Page
August 12, 1982 1
August 17, 1982 87

STATEMENTS

Barrett, Nancy, department of economics, American University 28
Brenner, M. Harvey, professor of operations research, the Johns Hopkins University 33
Colley, Patrick A., director, mayor's employment and training resources agency, city of Nashville, Tenn 119
DeGood, Hon. Doug, mayor, city of Toledo, Ohio 90
Kulongoski, Hon. Ted, a senator in the State of Oregon Legislature 63
Norwood, Janet L., Commissioner of Labor Statistics, Bureau of Labor Statistics 5
Rice, Hon. Norman B., councilman, city of Seattle, Wash 92
Rivlin, Alice, Director, Congressional Budget Office 13

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

Brenner, M. Harvey, prepared statement entitled "Assessing the Social Costs of National Unemployment Rates" 39
Colley, Patrick A., prepared statement 123
Fauntroy, Chairman Walter E., opening statements:
  August 12, 1982 3
  August 17, 1982 89
Kulgonski, Hon. Ted, prepared statement 67
Norwood, Janet L.:
  Attachments to statement referred to in oral testimony 8
  Response to request for additional information from Congressman Patman 24
Rice, Hon. Norman B., prepared statement 95
"Temporary Measures To Stimulate Employment: An Evaluation of Some Alternatives," report of the Congressional Budget Office, dated September 2, 1975 73

COSTS OF UNEMPLOYMENT

THURSDAY, AUGUST 12, 1982

House of Representatives,
Subcommittee on Domestic Monetary Policy,
Committee on Banking, Finance and Urban Affairs,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room 2222, Rayburn House Office Building; Hon. Walter E. Fauntroy [chairman of the subcommittee] presiding.

Present: Representatives Fauntroy, Patman, Hansen, Lowery, and Coyne.

Also present: Representative James Weaver of Oregon.

Chairman Fauntroy. The subcommittee will come to order.

Today, we begin 2 days of hearings on what seems to be a forgotten issue, unemployment and how it affects the economy and our people. For the fourth straight month, unemployment has afflicted more than 10 million Americans, with the July unemployment rate of 9.8 percent being the highest since 1941. Total employment, after a small increase in May, fell below 100 million in June and July. Hardest hit are teenagers, 24.1 percent; Hispanics, 13.9 percent; and blacks, 18.5 percent—with close to 60 percent of black male teenagers being unemployed.

Adult male workers, the primary breadwinners in the majority of families, are being hit with an 8.8-percent unemployment rate. Indeed, one out of every five workers in the past year has been without a job at one time or another.

For the past 2 years, we have had a monetary policy whose primary emphasis has been on the reduction of inflation. As a result, there has been a substantial reduction in inflation, from a 16.5-percent annual rate of increase in the CPI in the first quarter of 1980, to a 3.2-percent annual rate of increase in the first quarter of this year. Leaving aside the question of how lasting that progress will be—I would simply note in passing that the CPI had double-digit annual rates of increase in May and June—we who must oversee the conduct of monetary policy must weigh the benefits of reduced inflation against the costs of increased unemployment that has resulted from an exclusively monetarist anti-inflation policy. To do that, we need to understand fully the characteristics and costs of our current levels of unemployment.

It is especially important that we do this now. At a time when unemployment is officially measured at 9.8 percent of the work force, the highest rate since the Great Depression, it becomes tempting for some commentators and analysts to suggest that the consequences of that official rate of unemployment are not as bad as they seem. With a growing proportion of families who now have two incomes, it is argued that many unemployed workers still have spouses who are working. Moreover, the panoply of public and private unemployment benefit payments and other forms of income assistance have presumably cushioned the loss of income from unemployment. Finally, some commentators have hypothesized that many officially unemployed people may well be earning money in the underground economy.

On the other hand, there are indications that unemployment and its costs may be even worse than the measured rate. The number of discouraged workers who have dropped out of the job hunt and are not counted as unemployed has reached 1½ million people.

Long-term unemployment of 15 weeks or more has grown significantly in recent months, and the average current duration of unemployment of 16.5 weeks is markedly higher than the 11.6 week average for prior post-war recessions. This may well explain the fact that only 42 percent of those who are unemployed are receiving unemployment compensation, compared with more than 60 percent in the last recession of 1974-75—many unemployed workers have been unemployed for so long that they have exhausted their eligibility for benefits.

The costs of the present levels of unemployment have a direct bearing on how we judge current monetary policies and this administration's economic policies in particular. If the social, economic and human costs of our present levels of unemployment are relatively small, we will judge the course of current monetary and economic policies to be correct. However, if, as I believe to be the case, the unemployment rate of 9.8 percent in July understates and conceals the actual degree of suffering and hardship, we need to change our policies so that the road to lower inflation does not leave so much pain and suffering in its wake.

To help us answer these questions, we have with us today a distinguished group of witnesses. First, we will hear from two public officials. Dr. Janet Norwood, Commissioner of Labor Statistics for the Bureau of Labor Statistics, will provide us with a general overview of employment and unemployment conditions in this recession compared with previous ones. Dr. Alice Rivlin, Director of the Congressional Budget Office, will describe the budgetary implications of current levels of unemployment. Then, we will hear from two private economists—Dr. Harvey Brenner of the Johns Hopkins University, and Dr. Nancy Barrett of American University, who will discuss the social and economic costs of unemployment. We will then hear from Oregon State Senator Ted Kulongoski, who will relate these costs into their impacts on public policy and State actions as he has seen them in his State of Oregon, and as he has seen them during his tenure as a Member of the Senate. Dr. Norwood, Dr. Rivlin, Dr. Brenner, Dr. Barrett, and Senator Kulongoski, we welcome you to these hearings and look forward to your testimony.

[Chairman Fauntroy's opening statement follows:]

OPENING STATEMENT OF THE HONORABLE WALTER E. FAUNTROY
CHAIRMAN, SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Hearings on the Costs of Unemployment and the Implications for Monetary Policy

****

Thursday, August 12, 1982 -- 10:00 A. M.
2222 Rayburn House Office Building -- Washington, D.C.

****

The Subcommittee will come to order.

Today, we begin two days of hearings on what seems to be a forgotten issue, unemployment and how it affects the economy and our people. For the fourth straight month, unemployment has afflicted more than 10 million Americans with the July unemployment rate of 9.8% being the highest since 1941. Total employment, after a small increase in May, fell below 100 million in June and July. Hardest hit are teenagers (24.1%), Hispanics (13.9%), and Blacks (18.5) with close to 60% of Black male teenagers being unemployed. Adult male workers, the primary breadwinners in the majority of families, are being hit with an 8.8% unemployment rate. Indeed, one out of every five workers in the past year has been without a job at one time or another.

For the past two years we have had a monetary policy whose primary emphasis has been on the reduction of inflation. As a result, there has been a substantial reduction in inflation, from a 16.5% annual rate of increase in the CPI in the first quarter of 1980 to a 3.2% annual rate of increase in the first quarter of this year. Leaving aside the question of how lasting that progress will be -- I would simply note in passing that the CPI had double-digit annual rates of increase in May and June -- we who must oversee the conduct of monetary policy must weigh the benefits of reduced inflation against the costs of increased unemployment that has resulted from an exclusively monetarist anti-inflation policy. To do that, we need to understand fully the characteristics and costs of our current levels of unemployment.

It is especially important that we do this now. At a time when unemployment is officially measured at 9.8% of the workforce, the highest rate since the Great Depression, it becomes tempting for some commentators and analysts to suggest that the consequences of that official rate of unemployment are not as bad as they seem. With a growing proportion of families who now have two incomes, it is argued that many unemployed workers still have spouses who are working. Moreover, the panoply of public and private unemployment benefit payments and other forms of income assistance have presumably cushioned the loss of income from unemployment. Finally, some commentators have hypothesized that many officially unemployed people may well be earning money in the underground economy.

On the other hand, there are indications that unemployment and its costs may be even worse than the measured rate. The number of discouraged workers who have dropped out of the job hunt and are not counted as unemployed has reached one and a half million people. Long-term unemployment of .5 weeks or more has grown significantly in recent months, and the average current duration of unemployment of 16.5 weeks is markedly higher than the 11.6 week average for prior postwar recessions. This may well explain the fact that only 42% of those who are unemployed are receiving unemployment compensation, compared with more than sixty percent in the last recession of 1974-75 -- many unemployed workers have been unemployed for so long that they have exhausted their eligibility for benefits.

The costs of the present levels of unemployment have a direct bearing on how we judge current monetary policies and this Administration's economic policies in particular. If the social, economic and human costs of our present levels of unemployment are relatively small, we will judge the course of current monetary and economic policies to be correct. However, if, as I believe to be the case, the unemployment rate of 9.8% in July understates and conceals the actual degree of suffering and hardship, we need to change our policies so that the road to lower inflation does not leave so much pain and suffering in its wake.

To help us answer these questions, we have with us today a distinguished group of witnesses. First, we will hear from two public officials. Dr. Janet Norwood, Commissioner of Labor Statistics for the Bureau of Labor Statistics, will provide us with a general overview of employment and unemployment conditions in this recession compared with previous ones. Dr. Alice Rivlin, Director of the Congressional Budget Office, will describe the budgetary implications of current levels of unemployment. Then, we will hear from two private economists, Dr. Harvey Brenner of The Johns Hopkins University, and Dr. Nancy Barrett of American University, who will discuss the social and economic costs of unemployment. We will then hear from Oregon State Senator Ted Kulongoski who will relate these costs into their impacts on public policy and state actions as he has seen them in his state of Oregon and as he he seen them during his tenure as a Member of the Senate. Dr. Norwood, Dr. Rivlin, Dr. Brenner Dr. Barrett, and Senator Kulongoski, we welcome you to these hearings and look forward to your testimony.

However, before we begin, I would like to yield to my good friend and the Ranking Member of this Subcommittee, Mr. Hansen, for any opening remarks he may wish to make.

Chairman **Fauntroy**. We appreciate your having submitted your statements in advance, and we will begin as the witness list indicates, with Dr. Norwood.

STATEMENT OF JANET L. NORWOOD, COMMISSIONER OF LABOR STATISTICS, BUREAU OF LABOR STATISTICS

Ms. **Norwood**. I am pleased to provide you this morning with a very brief overview of the current unemployment situation.

While the high levels of unemployment experienced in the current recession are certainly known to everyone here, the underlying statistics may be less widely understood. The unemployment figures for July, released last Friday, show 10.8 million persons unemployed and a jobless rate of 9.8 percent.

UNEMPLOYMENT BY DEMOGRAPHIC GROUP

About 47 percent of the unemployed were adult men, 34 percent were adult women, and 19 percent were teenagers. During a recession, the unemployment rate for men typically rises more rapidly than the rates for other groups. This results from the fact that joblessness rises most in the cyclically sensitive goods-producing industries which employ large numbers of men. In July, the unemployment rate for adult men was 8.8 percent, 3 percentage points higher than 1 year ago. The rate for adult women rose 1.7 percentage points over the year to 8.4 percent.

While the unemployment rate for teenagers is very high—24.1 percent in July—the fact that it is above the rate for adults should not surprise us. Youngsters need time to explore the job market and to gain the experience and training that will lead to future success. Furthermore, many young people combine school and work and often experience a period of joblessness as they move in and out of the labor force. The situation is especially serious, however, among black teenagers. In July, their jobless rate was about 50 percent.

Black workers, as a whole, represent only about 10 percent of the population, but they account for nearly 20 percent of the unemployed. Black workers also represent a disproportionate part of those working part time for economic reasons and of those too discouraged to look for work.

In July, the jobless rate for black workers was 18.5 percent, considerably higher than the 8.7-percent rate for whites.

Hispanic unemployment rates usually fall between those of whites and blacks. But, as with other groups in the population, there is a great variation among the various Hispanic groups.

While overall unemployment is at record levels, the proportion of unemployed who have been jobless for 6 months or more is below the high of the 1975 recession period. This proportion tends to peak well after the unemployment rate turns downward.

UNEMPLOYMENT BY INDUSTRY AND AREA

The severe business downturn has been especially focused in the manufacturing and construction industries. Workers in durable manufacturing and housing-related industries have experienced sharp increases in unemployment. As a result, those geographic areas that are heavily dependent on goods production have been affected more than other areas. Michigan's unemployment rate, for example, at 14.4 percent in July, is the highest in the Nation.

July seasonally adjusted data are only available for 10 large States. However, May data for all States indicate that 13 States had jobless rates above 10 percent. The map attached to my statement shows that the employment situation differs considerably among the regions of the country. For example, unemployment rates are high in the lumber-producing areas of the Pacific Northwest, and we can see a band of high unemployment stretching down from Michigan to the Gulf of Mexico, where durable manufacturing industries have been hard hit. On the other hand, many of the Midwestern and Southern States have relatively low unemployment rates.

COMPARISON WITH EARLIER RECESSIONS

In comparing this recession with earlier ones, it is important to bear in mind that overall unemployment has been trending upward over several decades. You can see that if you look at the chart at the end of my statement.

Since the Vietnam years of the 1960's, each recession has started with a higher unemployment rate than the previous one. This means that new record highs often are reached rapidly because the unemployment rate at the beginning of the recession was higher than at the start of almost all previous recessions. In the current recession, for example, the overall jobless rate has reached 9.8 percent with a 2.6-percentage point increase. In the 1973-75 recession, it required a 4.4-percentage point increase for the rate to reach a lower peak—9.0 percent.

In periods of economic downturn, we can expect the number of discouraged workers to increase. The number of discouraged workers has risen steadily since 1979, just before the 1980 recession. From 700,000 in the first quarter of 1979, the discouraged worker total reached 1.5 million in the second quarter of 1982. This group—persons who report that they want work but are not looking because they think their search would be fruitless—climbed from 600,000 to 1.1 million in the 1973-75 recession.

UNEMPLOYMENT IN FAMILIES

Despite dramatic changes in living arrangements over the past few decades, most Americans continue to live in families, and many families have more than one worker. As a result, the family represents an important support system for the unemployed. In 1980, 4 out of 10 unemployed persons lived in a family with an annual income over $20,000, 3 had family incomes of $10,000 to $20,000, and 3 of 10 had family incomes under $10,000.

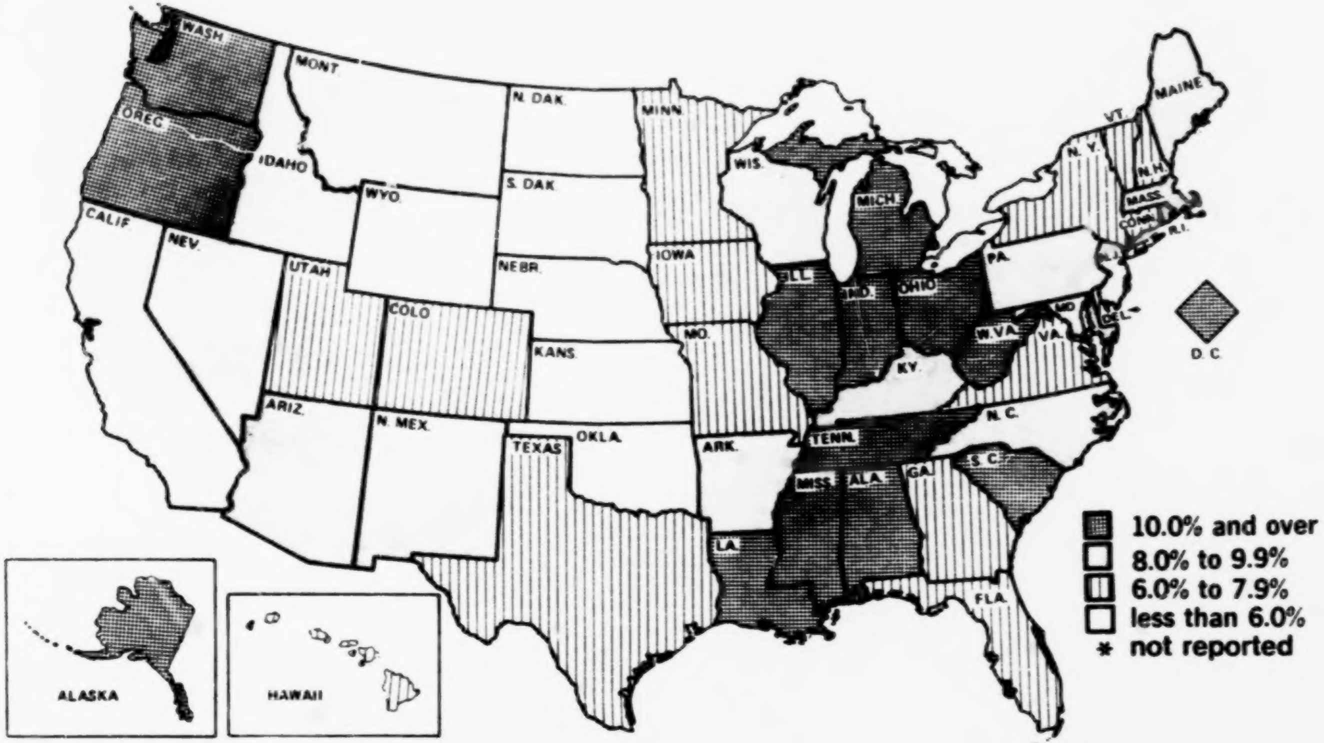
Most married-couple families have two or more earners. It is in these situations especially that the traditionally strong link between unemployment and low income has been loosened. The increased labor force participation of married women has brought about a decline in the proportion of families who lose their only wage earner when the husband becomes unemployed. In fact, in 55 percent of the families with an unemployed husband, some other family member had a job. Husbands have tended to earn considerably more than their wives, and extended periods of joblessness for a husband usually result in more of a reduction in family income than when the wife is unemployed. There are a small number of families—about 300,000—where both the husband and wife are unemployed, and they, of course, experience a much greater reduction in income.

The most serious financial distress caused by unemployment occurs in families maintained by a woman who has no husband present. First, a much greater proportion of such families experience unemployment—17 percent in the second quarter of 1982, compared with 12 percent of married-couple families. Second, when there is unemployment, it is far less likely that there will be another family member who is employed; only 15 percent of the unemployed women maintaining families had some other member of the family who was working. Currently, 15 percent of all families are maintained by a woman; among blacks, the proportion is much higher—40 percent.

Mr. Chairman, I hope that I have provided you with the facts you need. I would be pleased to answer any questions that you may have.

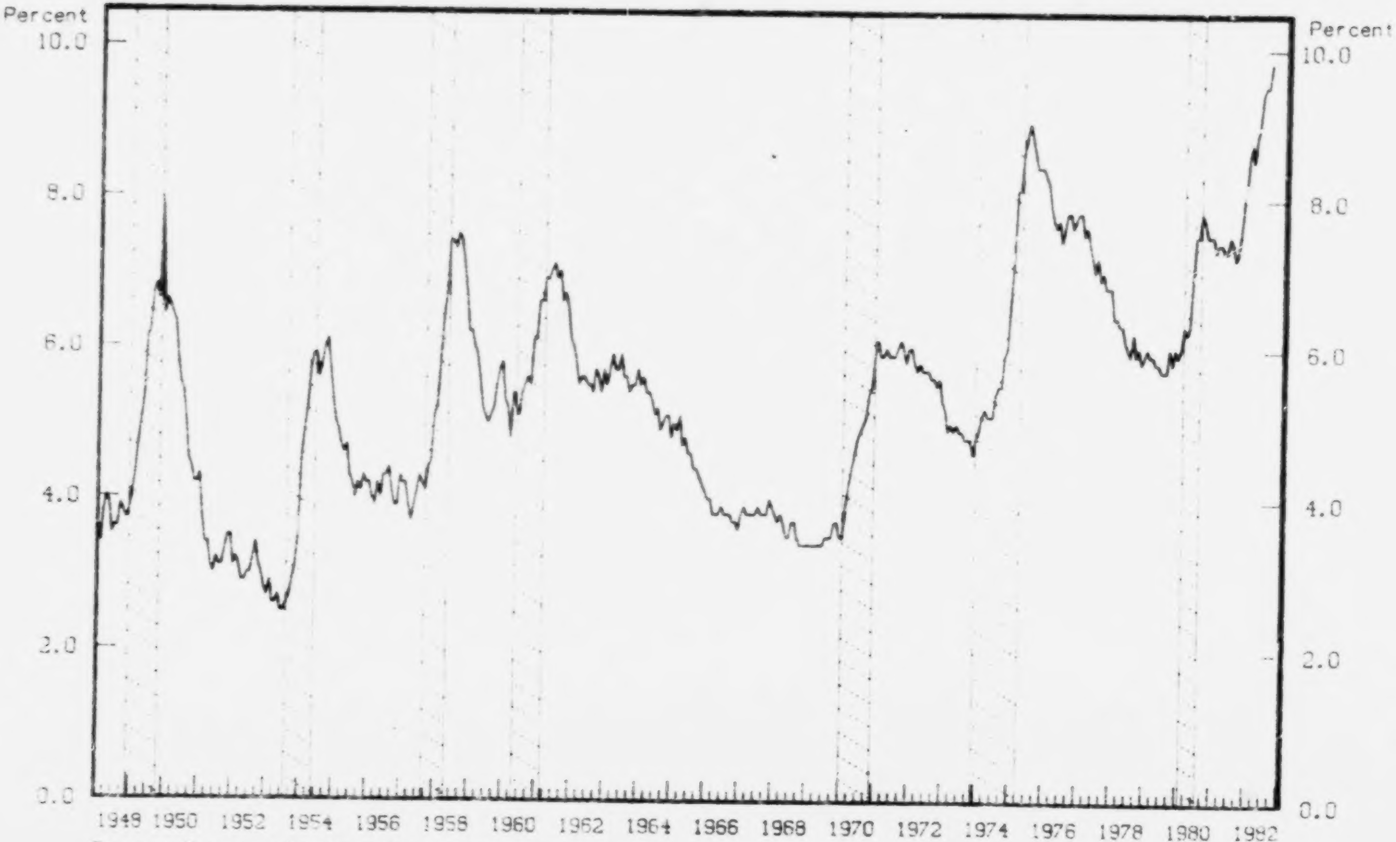
[The attachments to Ms. Norwood's prepared statement follow:]

Unemployment Rates by State, May 1982


WASH.
OREG.
CALIF.
NEV.
IDAHO
MONT.
WYO.
UTAH
COLO.
ARIZ.
N. MEX.
N. DAK.
S. DAK.
NEBR.
KANS.
OKLA.
TEXAS
MINN.
IOWA
MO.
ARK.
LA.
WIS.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W.VA.
MD.
DEL.
PA.
N.Y.
VT.
N.H.
MAINE
MASS.
CONN.
R.I.
D.C.
ALASKA
HAWAII
10.0% and over
8.0% to 9.9%
6.0% to 7.9%
less than 6.0%
* not reported

Source U.S. Department of Labor, Bureau of Labor Statistics, July 1982

Overall unemployment rate, seasonally adjusted, 1948–82



Source: Bureau of Labor Statistics, August 6, 1982.

Table 1. Unemployment rates for selected labor force categories during the last three recessions, seasonally adjusted

Category	1973-5 recession		1980 recession		1981-2 recession	
	Oct. 1973	May 1975	July 1979	July 1980	July 1981	July 1982
Total, 16 years and older	4.6	9.0	5.7	7.8	7.2	9.8
Adult Men	2.9	7.3	4.1	6.7	5.8	8.8
Adult Women	4.5	8.5	5.5	6.7	6.7	8.4
Teenagers	14.4	20.4	15.6	19.1	18.7	24.1
White	4.1	8.4	4.9	6.9	6.3	8.7
Black	8.9	15.2	12.1	15.2	14.9	18.5
Hispanic Origin	8.0	14.3	8.1	10.8	10.0	13.9
Married men, spouse present	2.2	5.7	2.7	4.9	3.9	6.6
Married women, spouse present	4.3	8.7	4.9	6.2	5.7	7.4
Women who maintain families	7.0	10.5	8.1	8.8	11.2	12.0
White-collar workers	2.7	5.3	3.3	3.8	4.0	4.9
Blue-collar workers	5.4	12.9	6.8	11.4	9.5	14.4
Service workers	5.1	8.6	7.1	8.3	8.0	10.5
Farm workers	2.6	3.3	4.4	4.9	4.8	6.1
Nonagricultural private wage and salary workers 1/	4.6	10.0	5.7	8.0	7.2	10.2
Construction	8.9	21.5	9.7	15.8	15.2	20.3
Manufacturing	4.1	12.3	5.5	9.7	7.3	12.0
Durable goods	3.9	12.6	5.0	10.3	7.1	12.7
Nondurable goods	4.2	11.8	6.2	8.7	7.6	11.0
Transportation and public utilities	3.0	6.2	3.7	5.7	4.1	6.1
Wholesale and retail trade	5.2	8.9	6.4	7.6	7.9	10.5
Finance and service industries	4.2	6.9	4.8	5.7	5.7	7.0
Government workers	2.7	4.6	3.6	4.1	4.6	4.6
Agricultural wage and salary workers	6.8	9.4	9.8	11.2	10.7	13.8

1/ Includes mining, not shown separately.

NOTE: July 1982 is the most recent month for which data are available; earlier dates represent the highs and lows of the overall unemployment rate during each business cycle.

Table 2. Distribution of unemployment among selected labor force categories during the last three recessions, seasonally adjusted

Category	1973-5 recession		1980 recession		1981-2 recession	
	Oct. 1973	May 1975	July 1979	July 1980	July 1981	July 1982
Total unemployed (in thousands)	4,144	8,433	5,985	8,330	7,824	10,790
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Adult men	35.4	44.7	38.1	45.3	42.2	47.2
Adult women	34.2	33.7	36.7	32.9	36.7	34.1
Teenagers	30.4	21.6	25.1	21.8	21.1	18.7
White	79.8	82.2	75.8	77.3	76.1	77.4
Black	19.5	16.6	21.6	20.1	20.9	19.4
Hispanic origin	7.0	7.2	7.1	7.5	7.6	7.7
Married men, spouse present	21.0	27.5	18.8	23.9	20.5	25.2
Married women, spouse present	21.1	22.2	19.9	18.6	18.6	17.8
Women who maintain families	6.1	5.0	7.0	5.5	8.0	6.7
White-collar workers	32.0	30.9	32.8	27.6	32.5	29.1
Blue-collar workers	48.5	53.7	45.9	54.1	48.4	52.2
Service workers	17.3	14.1	19.0	16.4	17.2	16.9
Farm workers	2.3	1.3	2.4	1.9	2.0	1.9
Less than 5 weeks	49.4	36.4	48.5	42.2	42.6	37.2
5 to 14 weeks	31.6	32.1	32.6	33.5	29.6	29.5
15-26 weeks	10.9	18.5	11.0	13.6	14.0	16.7
27 weeks or more	8.0	13.0	7.9	10.7	13.8	16.7

NOTE: July 1982 is the most recent month for which data are available; earlier dates represent the highs and lows of the overall unemployment rate during each business cycle.

Table 3. Unemployment rates for 10 large states in the last three recessions, seasonally adjusted

State	1973-5 recession		1980 recession		1981-2 recession	
	Oct. 1973	May 1975	July 1979	July 1980	July 1981	July 1982
California	6.7	10.1	6.0	6.9	7.3	10.5
Florida	3.4	11.9	6.4	7.3	6.2	7.3
Illinois	3.9	8.0	4.9	9.9	7.7	12.3
Massachusetts	7.4	11.8	4.9	5.9	6.5	9.5
Michigan	6.1	12.5	7.1	13.7	11.5	14.4
New Jersey	5.1	11.8	7.3	7.5	6.1	8.0
New York	5.6	9.2	7.2	7.9	7.4	8.2
Ohio	3.9	9.6	6.3	9.9	9.0	11.8
Pennsylvania	4.9	9.2	6.3	9.4	8.2	10.8
Texas	3.5	5.8	4.4	5.2	5.1	7.0

NOTE: July 1982 is the most recent month for which data are available; earlier dates represent the highs and lows of the overall unemployment rate during each business cycle.

Chairman FAUNTROY. I thank you for that general overview.

If you would remain for questions when Dr. Rivilin, has finished her statement.

Dr. Rivlin.

STATEMENT OF ALICE RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. RIVLIN. As requested by the subcommittee, my statement briefly summarizes the current unemployment situation and the outlook for the near term, and then discusses the effects of unemployment on the Federal budget.

THE UNEMPLOYMENT SITUATION

Unemployment has been rising for some time. In the last 12 months alone, the overall unemployment rate has increased from 7.2 percent to 9.8 percent. Almost 10.8 million persons are searching for jobs, and more than one million others report that they have given up looking for work and are therefore no longer counted as unemployed.

The recent upsurge in unemployment occurs within the context of longer term increases in both employment and average joblessness. Employment has grown rapidly in recent decades, increasing from 66 million workers in 1960 to nearly 100 million today. The share of the population in the labor force has also increased somewhat during that time—as a result of increased participation by women that has been partially offset by decreases in participation by men.

The unemployment rate has also increased over this period, from an average of 4.6 percent in the 1950's and 1960's to 6.2 percent in the 1970's. Thus far in the 1980's—a period dominated by recession—unemployment has averaged 7.8 percent.

Unemployment has hit some groups especially hard. Blacks had a jobless rate of 18.5 percent in July and Hispanics a rate of 13.9 percent, while teenage unemployment was 24.1 percent. Among black teenagers in the labor market, half are without jobs. The current recession has also caused high unemployment in the construction and machinery-producing industries. The combination of recession and longer term structural problems has produced severe economic distress for workers in some industries, such as steel and automobiles, and in some areas of the country, especially the industrial Midwest. The overall unemployment rate in July for blue-collar workers was 14.4 percent. Geographically, Michigan had the highest unemployment rate in May of this year, at 14.3 percent, with Illinois, Indiana, and Ohio averaging over 11 percent; a number of other States in the Far West, particularly the Pacific Northwest, and the South, also had jobless rates in excess of 11 percent.

The Congressional Budget Office—CBO—expects recovery in the second half of this year, and moderate growth through 1983. Unemployment is projected to decline slowly, but to remain above 8.5 percent in the final quarter of 1983. On the other hand, the unusual combination of tight monetary policy—designed to reduce inflation—and expansionary fiscal policy means that there is considerable uncertainty about the sustainability of the recovery. without a strong and sustained economic recovery, significant reductions in unemployment will not occur.

EFFECT OF UNEMPLOYMENT ON THE FEDERAL BUDGET

Changes in economic conditions, including the level of unemployment, have substantial effects on the Federal budget, and small changes in the economic outlook can affect the deficit dramatically. Increases in unemployment are usually a symptom, or result, of reductions in real economic growth generally, and it is this lower growth that is primarily responsible for the budgetary changes associated with increased unemployment.

Other economic factors affecting the deficit include inflation and interest rates.

Inflation affects the Federal budget by increasing tax revenues, although this sensitivity was significantly reduced by the indexing and tax-rate changes made in the Economic Recovery Tax Act of 1981. Inflation also increases outlays for indexed benefit programs. Higher interest rates primarily increase the cost of financing the Federal debt. The following discussion concentrates on the budgetary impacts of reductions in real growth and associated increases in unemployment.

EFFECTS ON REVENUES

The primary effect of reduced real growth and higher unemployment on the Federal budget is to reduce Federal revenues. Federal tax receipts decline in part because unemployed workers suffer reductions in earnings and therefore pay less in taxes, but primarily because of other associated changes. For example, the number of hours worked by those who remain employed tends to fall in periods of high unemployment, and wage increases generally are moderated. These factors reduce personal incomes and, thus, Federal tax revenues. Business earnings also fall during periods of reduced growth, further lowering tax receipts. A reduction in growth sufficient to cause a 1-percentage-point increase in the unemployment rate is generally associated with about a $20 billion to $30 billion annual reduction in Federal revenues.

EFFECTS ON EXPENDITURES

Reduced real economic growth and higher unemployment affect Federal expenditures by increasing outlays both for unemployment compensation and for other Federal programs.

UNEMPLOYMENT COMPENSATION

Unemployment compensation acts as an automatic economic stabilizer by providing additional income to some persons affected by cyclical downturns. This program provides benefits for up to 26 weeks to covered workers who lose their jobs, plus an additional 13 weeks of extended benefits for some persons during periods of high unemployment.

The Omnibus Reconciliation Act of 1981 limited the conditions under which extended benefits are paid, however, thus reducing the stabilizing effect of unemployment compensation. The 1981 act eliminated a provision that called for extended benefits to be paid to eligible workers nationwide whenever insured unemployment exceeded a certain level.[1] The insured unemployment rate is the percent of workers covered under State unemployment compensation programs who are collecting unemployment compensation benefits. As a result, extended benefits are now available only on a State-by-State basis, whenever the insured unemployment rate in the State exceeds a certain threshold. An increase of 1 percentage point in the overall unemployment rate now increases total unemployment insurance outlays by roughly $3 billion to $4 billion per year.

The 1981 Reconciliation Act also limited the conditions under which extended benefits are paid on a State-by-State basis, further limiting the program's stabilizing effects. Effective at the end of this September, the statewide insured unemployment rate necessary to initiate extended benefits is to be raised. When this occurs, some of the 500,000 long-term unemployed workers in the 26 States currently paying extended benefits are likely to lose them. The number of persons actually affected will depend on economic developments during the next few weeks, however, since unemployment rates in several States are close to the present threshold level. Another provision of the 1981 Reconciliation Act—which requires that extended-benefit recipients not be counted in the calculation of the insured unemployment rate—has already caused some States to cease paying extended benefits sooner than they would have otherwise.

A final factor that has reduced the automatic stabilizing effect of unemployment compensation is the growing difference between the overall unemployment rate—as reported in household surveys—and the insured rate—resulting in a smaller share of all unemployed persons receiving benefits.

During much of the last decade, there was about a 3-percentage-point difference between these two rates, but in the last 2 years this difference has increased to about 5 percentage points. This growing difference may be due in part to the changing composition of the labor force—including more women and youth, for example—which has resulted in a smaller share of workers having the long-term attachment to the work force necessary to qualify for unemployment benefits. Also, recent back-to-back recessions may not have allowed some workers to acquire the earnings history needed to receive unemployment benefits. Nonetheless, this development remains largely unexplained.

OTHER EXPENDITURES

Other Federal assistance programs also respond to changes in real growth and unemployment, but with more of a lag. The number of low-income persons eligible for medicaid, food stamps, and cash assistance payments grows as unemployment rises. Social security outlays increase somewhat with the unemployment rate, since persons who are eligible for benefits on the basis of age or medical condition are drawn onto the benefit rolls in increasing numbers. Together, yearly outlays for these programs increase by about $1 billion for each 1-percentage-point increase in the unemployment rate.

---

[1] The insured unemployment rate is the percent of workers covered under state unemployment compensation programs who are collecting unemployment compensation benefits.

In addition, Federal interest costs increase by roughly $2 billion to $5 billion in the first year because of higher deficits resulting from increases in spending and reductions in revenues.

NET EFFECTS ON THE BUDGET

The overall sensitivity of the budget to changes in economic conditions can be seen by considering CBO's preliminary reestimate of the fiscal year 1983 deficit expected to result from the policies of the first concurrent budget resolution. While the preliminary CBO forecast does not differ sharply from the economic assumptions used for the first resolution, these differences result in surprisingly large budget estimates.

COMPARISON OF THE PRELIMINARY CBO FORECAST AND THE ECONOMIC ASSUMPTIONS OF THE FIRST CONCURRENT RESOLUTION FOR FISCAL YEAR 1983

Economic variables	Resolution	CBO preliminary
Nominal GNP (percent change)	11.6	10.1
Real GNP (percent change)	4.4	3.6
GNP implicit price deflator (percent change)	6.9	6.3
Unemployment rate (percent, calendar year average)	8.4	8.8
Three-month Treasury bill rate (percent, calendar year average)	10.7	11.1
Estimated increase in deficit (billions of dollars)[1]	25-35	

[1] Also includes effects of changed economic conditions in 1982.

The CBO expects unemployment and interest rates to be somewhat higher in 1982 and 1983 than assumed in the first resolution, and inflation and real growth to be lower. On the basis of these differences, the CBO now projects that the 1983 deficit under the first concurrent resolution will be approximately $25 billion to $35 billion higher than under the resolution's economic assumptions.

Of the $25 to $35 billion estimated increase in the deficit, about $14 to $20 billion is attributable to reduced real growth and the associated increases in unemployment. About $13 to $17 billion of this represents reduced Federal revenues and $1 to $3 billion represents increased outlays—primarily for unemployment compensation.

The preexisting unemployment level may affect the budgetary impact of any increase in joblessness. For example, a given change in the unemployment rate will result in a greater change in outlays if the level of unemployment is near the State trigger rates for extended unemployment benefits than if the unemployment level is far above or far below the trigger rates. The preexisting level of unemployment may also affect the mix of persons newly unemployed—between more established workers who are likely to qualify for unemployment benefits and less experienced ones with fewer assets who may qualify for means-tested support programs.

CURRENT PROPOSALS

The Congress is currently considering several unemployment compensation proposals that would mitigate the short-term effects of high unemployment. The House has passed and the Senate has indicated its support for federally financed supplemental benefits for long-term jobless workers in States with high unemployment.

Other proposals would continue extended benefits in States that have recently—or will soon—trigger off the extended benefits program because of the 1981 changes in the law. Still other proposals would provide relief to States that are having difficulty repaying funds borrowed from the Federal Treasury to provide State benefits. Depending on the combination of proposals, their total cost could range from $1 billion to $5 billion in fiscal year 1983.

Other proposals before the Congress could offset some or all of these added costs as well as address the longer term financing problems in the unemployment compensation system. The Senate has passed a proposal to increase the Federal unemployment tax on employers, and the House has voted to reduce the income thresholds above which unemployment benefits are taxed as income. Increased revenues from these changes could at least partially offset the costs of proposed benefit extensions in fiscal year 1983, and could significantly exceed those costs in future years.

CONCLUSION

In summary, unemployment is high and is expected to remain so in the near future—adversely affecting many individuals and the Federal budget. Although overall economic expansion is the most effective way to achieve significant long-term reductions in joblessness, the short-term effects of high unemployment could be mitigated somewhat by changes in certain Federal programs—such as unemployment compensation—that assist unemployed persons.

Thank you, Mr. Chairman.

Chairman **Fauntroy**. I thank you. I certainly want to thank both Dr. Norwood for a very good general overview of unemployment and employment conditions in the country, and Dr. Rivlin, for you describing in very clear and graphic terms, I think, the budgetary implications of unemployment for our economy.

Since you began, we have been joined by the distinguished ranking member of the subcommittee, Mr. George Hansen, of Idaho, as well as Mr. James K. Coyne, of Pennsylvania, and Mr. Lowery, of California, and prior to our tendering to you questions on your testimony, I want to yield now to the distinguished gentleman from Idaho.

Mr. **Hansen**. I thank you, Mr. Chairman. You are always most gracious, and I appreciate the opportunity we have of holding these hearings, and I certainly want to welcome our distinguished panel and apologize for being a bit late, but we have several conflicting committee meetings this morning, and the floor is, of course, in action.

This kind of spreads us rather thin, and I certainly am interested in the budget at hand and look forward to reviewing your testimony.

I, too, would like to welcome this distinguished panel, and I am looking forward to their testimony.

High unemployment, of course, is a problem that has plagued us for several years. And I view it as an outgrowth of the profligate policies of bygone years that have led to the recent recession which fortunately appears to have bottomed out.

Members of the full committee, as well as this subcommittee, have received extensive testimony about the impact of unemployment on an individual and personal level. My colleagues and I are interested to learn more about the cost and various other dimensions of the unemployment problem on a macro level. Among other things, we would be eager to get your reaction to the manner in which unemployment statistics are collected and what you think about their reliability, and what, if anything, should be done to improve them.

We will, of course, be interested, also, in any new light you can throw on the structure of the unemployed population from a demographic and geographic point of view.

Finally, there is the cost of unemployment to the total economy in terms of lost man-hours and output. In this connection we also would be particularly interested in your views on the impact of productivity and what you expect in the future.

Again, I join in welcoming you; and I thank you, Mr. Chairman.

Chairman FAUNTROY. Dr. Norwood, I have a brief question for you. Making allowances for all of the changes in the work force, in the different characteristics of the unemployment as you have outlined, would you say that the current unemployment and employment situation is better or worse than the 1974-75 recession? I realize that that is difficult to assess, but I am sure, after weighing all the factors as you have, that you have some reaction to that.

Ms. NORWOOD. I think that the current unemployment situation is very serious. It was very serious during the 1973-75 recession. However, there are some differences between the recessions.

We have a somewhat sharper focus on automobiles, automobile manufacturing, some of the other durable goods, manufacturing industries, and, of course, things like housing, that are very interest sensitive. In addition, there are many of the industries which produce materials that are used in construction and in the manufacture of some of the other manufacturing industries which I have mentioned.

We do still have some very small, but, nevertheless some growth—several hundred thousand over the year—in the service-producing sector. The service-producing sector is an area in which most workers in the United States are employed. Although we have had weak growth in the service sector, we have had an increase over the year from July to July, of somewhat over 250,000.

Chairman FAUNTROY. So, is it better or worse?

Ms. NORWOOD. I think that is just a value judgment which it seems to me is not so important as recognizing that we have very serious unemployment problems today, without any question.

Chairman FAUNTROY. Dr. Rivlin, do you see any changes in the structure of the economy, especially in the industrial sector, that could either improve or worsen the employment outlook for our work force? I guess I have two kinds of things in mind: Will the trend toward robotics decrease manufacturing goods, and will the competitive position of America in the world markets be so weakened by the effects of the high interest rates on recession and investment that many jobs will be permanently lost?

Ms. RIVLIN. That is a hard set of questions, as you recognize.

Clearly, we have several major industries in difficulty. Automobiles and steel are the most prominent of them. I am reasonably optimistic about the long-run future of the American automobile industry. But it is clear that more robotization, if you like, will take place in that industry as it comes back and becomes more competitive in the world markets, and it is unlikely that we will have as high employment levels in the automobile industry in the future as we have had in the past.

A more optimistic way of putting that is that our economy will not be as dependent for employment on the automobile industry; that we will have a more diversified economy as we move ahead. The prospect that we will increase productivity in many industries, and that that will cause some dislocations, is certainly there, but it is probably good, and it is also not new.

As economies progress, some industries decline, and others increase. I am not one of those who sees gloom and doom in increased productivity and automation. You will remember back in the fifties there was a big scare about how automation was going to put everybody out of work. It didn't happen then. I don't think it will happen now. But technological change does create very severe dislocations as it progresses.

Chairman FAUNTROY. We have been concerned about the disinvestment in American productivity that has resulted from the high interest rates. Would you care to comment on the extent to which that disinvestment, over the recent years, may result in so weakened an economy that the jobs may be permanently lost to foreign markets.

Ms. RIVLIN. There is no question that high interest rates have had a devastating effect on investment in the short run. The hoped-for major increase in investment that was to have resulted from last year's tax changes has simply not occurred, and does not look as though it will occur over the next few months. It will be a while before we pull out of the recession sufficiently to induce increased investment.

One reason is high interest rates, and another is the recession, itself. No matter how favorable the tax treatment is, if manufacturers are not using all of their current plant, and they are facing high interest rates, they are really not likely to undertake new expenditures for plant and equipment. So all of those things are serious and are, in part, a result of the high interest rates.

Except for special situations, however, I am not, as I said, gloomy about the future of American industry in general. I think we will lose jobs in some industries that are not competitive in world markets, and we will pick them up in others, as the economy recovers.

Chairman FAUNTROY. Dr. Norwood, so far in this recession, only about 40 percent of those unemployed are receiving unemployment benefits compared to over 60 percent in the 1974–75 recession. How do you explain this dropoff in eligibility for unemployment benefits? Is it due to longer periods of unemployment in this recession, so that the eligibility period is exceeded?

Ms. NORWOOD. I think there are a number of reasons, as Dr. Rivlin reviewed with you in her statement. There are some possible effects of changes in the characteristics of the work force and of the fact that we have had the current recession backing onto the 1980 recession.

The work that we have done, however, suggests, though I think that Dr. Rivlin is quite right that there are no complete explanations that the changes in both the legislation during both the Carter administration and the Reagan administration, as well as the administration of some of the specific elements of the law, have had an effect—things like administration of the work test; things like the administrative approaches taken now to the eligibility of people who are unemployed if they have voluntarily left their last job. Those elements of change, both in law and in administration of the legal requirements, do seem to have had an effect.

Chairman FAUNTROY. I am going to yield now to my distinguished colleague from Pennsylvania, Mr. Coyne.

Mr. COYNE. Thank you very much, Mr. Chairman.

I also have been impressed with the caliber of the testimony, and I would like to pursue what appears to be a common theme in both your testimony and your replies to questions from the subcommittee—the relation between the high unemployment and capital-sensitive sectors of the economy.

What proportion of the 10 million-plus unemployed people today would you say fall within those industrial or commercial sectors which are largely facing their difficulties today largely because of the high interest rates?

Obviously, an unemployed person at McDonald's is not out of work because of high interest rates, whereas somebody in the housing, timber, or the steel industry more than likely is. What percentage of the unemployment today do you think we owe to the high interest rates?

Ms. RIVLIN. I don't think we could give you a number on that. It is not even clear that the person at McDonald's is not out of work because of high interest rates.

Mr. COYNE. If interest rates today were significantly lower, and we were not seeing the recession in these capital-sensitive areas because of high interest rates, what would we be seeing today?

Ms. RIVLIN. I think that a clear line of causation can be drawn in the case of housing. There is no question about that. To the extent that people are unemployed in construction and related industries—Dr. Norwood can give you the number—that can quite clearly be laid to high interest rates.

Mr. COYNE. About a third of the unemployment is definitely related in one way or another to the high interest rates?

Ms. RIVLIN. I would very much hesitate to give even a ballpark guess like that.

Mr. COYNE. Would you like to comment on what proportion of the share of unemployment is attributable to high interest rates?

Ms. NORWOOD. I agree with Dr. Rivlin that that number is really not very easy to come up with. In fact, in many industries, even in durable manufacturing, there is technological development going on. We find when you get down to some of the more specific industries within manufacturing, that many of those with high technological development have actually increased employment.

Mr. Coyne. If I were to say, is it one-third, one-half, or two-thirds, which would you pick? One-third, one-half, or two-thirds?

Ms. Norwood. I have learned not to hang my career on any guess.

Mr. Coyne. A professional judgment; not your guess.

Ms. Norwood. I really don't know.

Mr. Coyne. This is a very real problem. A lot of people say that the current unemployment rate is all because of high interest rates. Sometimes I hear monetary policy, or taxes, or whatever, is to blame, but more often than not I hear the answer that high interest rates are the key, the primary cause. You both specifically addressed this point. Is it unfair to say a third or a half of the unemployment is principally because of high interest rates?

Ms. Norwood. I really have no idea.

Ms. Rivlin. The world is more complicated than that. A principal reason why we had this recession was that we did have a very tight monetary policy and high interest rates for various reasons. It is the recession which was partially caused by the high interest rates, that has contributed to the rising unemployment. I don't think you can really say more than that.

Mr. Coyne. When I came into this august body in January 1981, the interest rates were 21½ percent, and they are 15 percent now. If they were still 21½ percent now, would we have more or less unemployment today?

Ms. Rivlin. I think we would have more.

Mr. Coyne. Substantially more, do you feel?

Ms. Rivlin. Yes.

Mr. Coyne. Would you say that the efforts, from whatever cause, that have reduced interest rates in the past 18 months have helped to reduce in a positive way what might otherwise be increased unemployment?

Ms. Rivlin. That is a complicated question.

Mr. Coyne. I am not asking you to give the reasons for the high interest rates. We can give credit to the effects of the media or Paul Volcker, or whatever. I would like to know if the efforts to reduce the high interest rates are contributing to holding the line on the high unemployment?

Ms. Rivlin. Part of the reason the interest rates have come down is because of the recession, itself.

Mr. Coyne. You are making a qualitative judgment. We will leave that for debate.

I am not asking for your judgment as to why the interest rates have come down, but your judgment as to whether the fact that they are down by 6½ points from where they were when we came into office, has contributed to making unemployment less of a problem than it otherwise would be?

Ms. Rivlin. That is not the kind of question that has an answer.

Mr. Coyne. I would like to look at your chart again on page—I don't think we have page numbers—but you have a very interesting chart here which shows the cycles of unemployment. With the exception of the Vietnam war period, when we were obviously distorting what might otherwise be another cycle, we have seen almost constant 4- to 6-year cycles in unemployment over the past 25 to 30 years, a period during which we dramatically increased the Federal efforts in regard to alleviating the difficulties of the economy. Despite those efforts, however, we see that the cycles keep repeating every 4 to 6 years, and the floors of the cycles become higher.

When things get better, they don't become as better as they used to be. We are developing a hard core of unemployment. We have been doing this gradually over the past 25 years. Your floors keep going up with the exception of the Vietnam war. Your peaks keep getting higher. Would that lead you to think that the policies of the past 25 years for dealing with unemployment have been effective or that they contribute to what is a cyclical phenomenon and make the cycles no more different than they have been in the past?

Ms. NORWOOD. I believe that we have a whole series of factors that are responsible for this phenomenon of the unemployment rate being higher at the beginning of a recession than at the end of the last. One of the most important elements in this whole picture is that the composition of the labor force has changed markedly in the last couple of decades.

We have had an enormous influx of women into the labor force. We have had considerable expansion in employment in the services sector of the economy. We have had the post-war baby-boom people coming of age; so we have had a large increase in the number of young, less experienced workers, and an increase in our minority population and I might point out that, if you just look at birth rates in the future, we are going to have an increase in the proportion of minorities in the labor force.

I don't think that we can say very easily that one or another policy has been responsible for this. There are a whole series of economic factors as well as perhaps some kinds of policy decisions that were made.

Mr. COYNE. Wouldn't you draw the conclusion, after studying this chart, that 25 years of greater and greater Federal involvement in dealing with unemployment have not really produced the results that were intended?

Ms. NORWOOD. There were policy changes, population changes, demographic mix changes, and industrial composition changes in this country. I think one needs to look at all of these kinds of issues.

Ms. RIVLIN. May I add that if you had a similar chart showing employment, it would also show a rising trend over this period.

Mr. COYNE. We should not be as alarmed, as some people have been, about the high unemployment, because all of these demographic characteristics give you reason to qualify the current situation and cause you to believe it is not as serious as it might otherwise be considered.

Ms. NORWOOD. That is not what I am saying.

Mr. COYNE. Either we should look at this track record of the past 25 years and say that those 25 years of Federal programs have failed, or say, as you say, well, there are certain situations involved here that cause us not to believe that the current unemployment situation is so important.

Ms. Norwood. We have had an economy with climbing employment. We have also had a fast-growing population, so the economy has taken care of providing jobs for many of the people coming into the labor force; but this economy has got to keep growing because if we stand still, the increase in population and labor force is going to continue to increase unemployment.

Mr. Coyne. This current unemployment cycle is not as bad as 1958, for example?

Ms. Norwood. I didn't say that.

Mr. Coyne. It seems that what you are saying is that there are qualifications which have caused the work force, as you point out, to grow very rapidly, and these things which are outside of the area of economic policy have contributed to the high unemployment rate to a very significant degree.

Ms. Norwood. No, that is not really a characterization of the comments that I made. I believe that there are a whole series of factors that we need to look at, the employment population ratios, labor force participation rates, age and minority composition of the population, the changes in the industrial structural economy, as well as productivity changes, and, of course, different peoples' views of policy. But that is as far as I am prepared to go.

Mr. Coyne. Fine.

Well, thank you very much, Mr. Chairman.

Chairman Fauntroy. The gentleman from Texas, Mr. Patman.

Mr. Patman. Dr. Norwood, Congressman Coyne has mentioned about the cycles. Do you see any correlation between the tight money policies in those unemployment money figures?

Ms. Norwood. I am not expert in that area, sir.

Mr. Patman. Do you find that tight money or high interest rates have any impact upon unemployment levels?

Ms. Norwood. I find it difficult to single out a particular factor and put all of the blame on one piece or another.

Mr. Patman. I am not talking about all of the blame, but I am talking about some of it.

Ms. Norwood. Clearly, I think everyone would agree that the housing sector has been affected by high interest rates, and people work in building houses.

Mr. Patman. Well, when you have this rising employment due to the wife going into the employment field, is that because the family is being impacted by additional costs, whether they be higher interest rates or others? Is that part of it?

Ms. Norwood. There are, as I am sure you are aware, Mr. Patman, a variety of reasons for the very vigorous growth of labor force participation of women.

In this country, most women work because they have to work. Many women work because they want to work, and there has been really a social revolution going on over the last 20 years.

Mr. Patman. The reason most women feel they have to work is that they are experiencing additional costs of living, isn't that true?

Ms. Norwood. That is one of the reasons. We have also had an increasing standard of living.

Mr. Patman. Now, if I read the papers correctly, they are going to let the kids work, too. Is that right?

Ms. **Norwood**. I have no knowledge of any of the policy issues, sir.

Mr. **Patman**. You have read about those?

Ms. **Norwood**. I read the newspaper.

Mr. **Patman**. You read that, then, too, something about relaxing the standards of child labor so that more kids can work. Is that true?

Ms. **Norwood**. I have no knowledge in that area.

Mr. **Patman**. Do you have any statistics about children working, any rise in that?

Ms. **Norwood**. We count people 16 and over as members of the labor force, and we can provide information on the numbers of people working at that age level.

Mr. **Patman**. What do you do about kids 14 years old?

Ms. **Norwood**. We do have some information in the household survey on 14- and 15-year-olds.

Mr. **Patman**. Are they dropped out of the rolls as far as unemployment is concerned?

Ms. **Norwood**. They are not considered a part of the official labor force. They would be included in the establishment survey as employed on payrolls.

We have two separate observations of employment: one from the household survey which defines the labor force; it is an official definition and used generally in most countries of the world. Then we have a second observation which we publish together with the results of the household survey, which gives us information on the numbers of people who are employed in business establishments all over the country, as reported on their payrolls. In the establishment survey, anyone who is report on a payroll would be included.

Mr. **Patman**. These figures we are getting on teenage unemployment, they relate to just teenagers who are 16 years of age and older; right?

Ms. **Norwood**. Yes, sir.

Mr. **Patman**. Teenagers who are less than that, they are not recognized as being unemployed, if they have had a job before?

Ms. **Norwood**. I am informed that in April of 1982, which was the last month before schools began letting out, not seasonally adjusted, there were about 182,000 14- and 15-year-olds who were found to be available for a job, without a job, not working and looking for a job.

Mr. **Patman**. How does that compare with the figures of 10 years ago?

Ms. **Norwood**. I could provide that for the record.

[At the request of Congressman Patman, the following response was submitted for inclusion in the recored by Ms. Norwood.]

Response Received From Ms. Norwood

In April 1972, the number of unemployed 14 and 15-year-olds was 142,000.

Mr. **Patman**. And for the preceding 10 years, how does the underground economy affect your statistics and your analysis of this problem?

Ms. **Norwood**. I don't know. There are, of course, people who don't pay taxes. There are people who are working off book. This is the problem that all the statistical systems in the world are confronting.

We do have, however, several ways of getting at what we think are accurate results. First, in the household survey we ask people specific questions. We have carefully trained investigators, and we provide complete and absolute confidentiality to all respondents. We, therefore, believe that we are getting fairly good information in the household survey. In the establishment survey anyone who is on a payroll, on the books, would be reported.

I think that the whole question of the so-called underground economy has really been discussed more in terms of the dollars in tax revenue that may or may not be lost. One should not immediately make the assumption that this affects the employment or unemployment numbers; and there may or may not be a relationship. About all I can say on that is that we do have underway in the Bureau of Labor Statistics a review of all of the studies that have thus far been done on the question of off-book work and estimates of the so-called underground economy, insofar as it relates to employment and unemployment. We hope to complete that study in the next few months, and we will be able to provide you with that information. This is an issue which is also on the agenda of a working party on employment statistics of the OECD, which I chair, and all of the members of the governments of the many countries there, are looking at ways together to try to get a better fix on it.

Mr. PATMAN. Based on the information you have already assembled, what is your estimate as to the underground economy, its size in relation to the economy we generally recognize?

Ms. NORWOOD. I really cannot provide you with any estimate. As I have said, the question is a very complex one, because the amount of tax revenue which IRS has been looking at, the amount of output which the Bureau of Economic Analysis has been looking at, may bear very little relationship to the question of employment.

Mr. PATMAN. Dr. Rivlin, give us your opinion about what the size of the underground economy is.

Ms. RIVLIN. I wish I could. Because of the very nature of the underground economy none of us know enough about it to accurately estimate its size. I think it is not trivial, but I cannot give you even a general estimate.

Mr. PATMAN. I have seen estimates as high as a third of the entire economy.

Ms. NORWOOD. There are many estimates, and some of them are quite wild.

Mr. PATMAN. Would you consider a third to be wild?

Ms. NORWOOD. It sounds rather wild.

Ms. RIVLIN. That sounds high to me.

Ms. NORWOOD. One of the things I have learned, sir, is not to make estimates unless I have got some factual background for it.

Mr. PATMAN. Thank you very much.

Chairman FAUNTROY. Thank you.

Dr. Norwood and Dr. Rivlin, in response to questions about the fact that each succeeding recession has started with a higher rate of unemployment and in response to the question as to what extent we can tie high interest rates to the rate of unemployment, neither of you has mentioned the loss of the world market shares that we have sustained in both manufacturing, and in some instances higher technology development. To what extent would you include that factor as having a significant role in our ability to keep American people employed? Let me put that in a specific context: Boeing Aircraft, in 1981, had 67 percent of the aircraft industry in the world, and it has now fallen to 51 percent in a 1-year period. Some observers feel that is largely attributable to the high cost of the dollar and, therefore, foreign consumers looking elsewhere to purchase aircraft. To wit, the Eurobus went in the same period from 20 percent of the world market to 42 percent of the world market. What is the extent to which that factor has to be taken into account?

Ms. RIVLIN. There are certainly industries that have not competed as well in the world market as they once did. There are also counterexamples, and I would not regard the international situation as a major cause of U.S. unemployment. Indeed, it has been one of the strengths of the American economy historically that we are far less dependent on exports than most other countries are.

We have shifted somewhat in the makeup of our exports. Agriculture is now one of our major export industries.

I could give you a more organized answer to this question, but I do not share the view that our world competitive situation is a major cause of current problems.

Chairman FAUNTROY. I had in mind more those things that we are importing which we used to make and sell to ourselves, which is absolutely different from the export picture.

Ms. NORWOOD. No further comment.

Chairman FAUNTROY. You said that a reduction in growth sufficient to cause 1 percentage point increase in unemployment rate is associated with between $20 and $30 billion in annual reduction in Federal revenues. What would be the general economic impact if we were to reinflate the economy, say, to put 5 percent of the work force back to work. If your estimates are correct, this would increase Federal revenues from $100 to $150 billion. That would be enough to balance the budgets, I hope, and thus would seem to be highly desirable. What are the other effects of such a policy, or why should we, or should we not, go that route?

Ms. RIVLIN. Clearly, if we had a very high growth rate, we would be in better shape; no question about that. How do we get there, and how do we do that without reigniting inflation? That is the main problem.

Chairman FAUNTROY. Dr. Norwood?

Ms. NORWOOD. No comment. I am listening with great interest.

Chairman FAUNTROY. Well, thank you.

Mr. COYNE. The Bureau of Labor Statistics is very good at counting numbers and people, but not especially interested in the reasons why people might be unemployed because they say they can't quantify this.

Ms. NORWOOD. The Bureau of Labor Statistics does a good job of counting and analyzing what the data show. We do not speculate on policy issues. We do not comment on policy.

Mr. COYNE. I was asking for a quantification of what percent of our unemployment is because of exports or interest rates, and you responded that you did not get that type of quantification in terms of causes.

I am pointing out a fact that you refuse to give me even the vaguest type of quantification of what are some of the causes of the unemployment.

I am not criticizing you. You have decided that that is your charge. It seems to me, however, that the Bureau of Labor Statistics would be wise to develop statistical techniques to explore and quantify many of the causes of unemployment so that we in policy positions can evaluate whether to attack high interest rates, or the strong dollar, or competition from the European Community, or whatever. If we are only given a total statistic of 9.8 percent and not even an effort is made on your part to quantify some of the causes thereof, it makes our job much tougher.

Ms. NORWOOD. I must say, sir, that we do, I think, quite a good deal of analytical work on things which can factually be presented. What you were requesting were really decisions or value judgments about whether one particular policy had an effect, and that I do feel is off grounds for people in the Bureau of Labor Statistics. We report what has actually happened, and we report a comprehensive set of data because we believe that it is wrong to look at simply an overall number.

Mr. COYNE. You will have to admit that people are unemployed for different reasons.

Ms. NORWOOD. Yes.

Mr. COYNE. If you would develop a data base it would be helpful to us. It would be nice if you could give us some estimates of the different reasons that people are unemployed. I am not asking you to give me policy decisions.

Maybe I can give you one last chance to answer the question. What percentage of those people who are unemployed do you think are unemployed because of high interest rates?

I am asking for a percentage that falls into one cause, and if you are saying to me, we don't do any research on the causes of unemployment, then I think you ought to look into the issue to try to develop some research that looks into the causes of unemployment.

Ms. RIVLIN. I don't think Dr. Norwood is ducking that question for any bureaucratic reason. If she were a private citizen doing research into that question, she could not answer it, because nobody knows the answer to that question. She would be dishonest if she did answer that question.

Mr. COYNE. I was a professor of economics. I will tell you pointblank there are methodologies to develop far more quantifiable data about the causes of unemployment than I think either one of you have been willing to share today.

Ms. RIVLIN. Would you be willing to be a consultant to the CBO?

Chairman FAUNTROY. The current budget cuts have weakened unemployment compensation, income assistance programs, and the budget cuts have crippled the education and retraining programs that were designed to prepare the unemployed workers for new jobs. Those cuts have also reduced social and health programs that have helped people to cope with the personal effects of unemployment. As an expert on the budget and its ramifications, would you say that my fears are correct, or are they unjustified or premature?

It seems to me the cuts have gone to the very programs designed to cushion people.

Ms. Rivlin. Clearly, the budget cuts of the last couple of years have been concentrated in the social programs, and that concentration has its costs. We are seeing a set of Federal programs reduced in size from what it was before, and at a time when there is economic distress in many parts of the country, and these things interact. That is about all that I can say about it.

Chairman Fauntroy. All right. I take it that neither of you is aware of the methodologies for tracing the source or the causes of unemployment, to which my colleague made a reference.

Ms. Norwood. I wouldn't say that I am not aware of the sources of analysis, but these are very difficult estimates to make with an acceptable degree of precision. There are many, many people who are making attempts at explaining the causes, but we have got to stick to analyses that we can stand behind.

Chairman Fauntroy. Thank you, we appreciate so very much your very able and perceptive testimony here today.

We will now continue with our second panel.

We are pleased to welcome Dr. Nancy Barrett from the department of economics of the American University, and Dr. Harvey Brenner, professor of operations research of the Johns Hopkins University.

STATEMENT OF NANCY BARRETT, DEPARTMENT OF ECONOMICS, THE AMERICAN UNIVERSITY

Ms. Barrett. Your staff has asked me specifically to comment on the economic costs of the very high unemployment that we are now experiencing, partly as a result of high interest rates, and additionally attributable to the budget cuts and other policies of the Reagan administration.

As the previous witnesses have ably testified, there are various ways to measure the economic costs of unemployment. One of these ways is to look at the GNP gap; that is, the difference between what the economy is now producing in the way of goods and services, and what we could produce at a high employment level which economists call the potential gross national product. Now, right now this GNP gap is at an all-time postwar high.

In the second quarter of 1982, it was 9.6 percent of GNP, which amounted to $320 billion at an annual rate. What this means is that the recession, or this high unemployment, has meant $1,500 of loss output for every person in America. Every man, woman, and child has an average of $1,500 less than what they would have had at potential.

The Council of Economic Advisers in the Reagan administration no longer publishes estimates of potential GNP. What I did use to calculate the GNP gap was a projection based on the 1981 estimate of the Council of Economic Advisers. At that time they were using an unemployment rate of 5.4-percent as the high unemployment number, so we are not talking about a situation in which every possible person is employed. We are talking about comparing the current situation to a situation of 5.4-percent unemployment. I hesitate to call that full employment in any sense. It is certainly much higher than the full employment goals in the Humphrey-Hawkins bill, but it is only a point of reference with which to compare the current situation.

I might point out that this 9.6 percent GNP gap, or $320 billion of lost output, is higher than the previous peak of 7.2 percent that we experienced in the 1972-73 recession, when the loss then was $1,000 per capita, and it is a full 50 percent above the 6.3-percent gap which is typical of the trough of postwar recessions. On average the GNP gap in a recession ought to be 6.3 percent, and we now have one that is 50 percent higher than that, 9.6 percent. This loss output is not distributed uniformly across sectors of the economy and the loss of purchasing power is not even distributed. When I said $1,500 per person, I didn't mean every person had that loss, but that was the average.

As regards the distribution across the economy, construction, automobiles, consumer durables, have been disproportionately impacted by the high interest rates. Some regions of the country are experiencing situations similar in severity to those of the Great Depression. I won't dwell on the specifics of these distributional attempts, but I would like to discuss their implications. I would like to elaborate on a point to which you were leading the other witnesses. The high interest rates are not the only factor that has adversely impacted our industrial base. As you have pointed out, Mr. Chairman, structural changes have occurred and are occurring in our economy that are truly unprecedented. If we are to remain competitive and a viable force in the world economy, we must adjust to those changes, and we must adjust efficiently.

The high unemployment that we are experiencing and the protracted recession has reduced our ability to adjust to these changes. We see the automobile industry, the steel industry, clamoring for protection from foreign imports rather than getting down to the restructuring necessary to make these industries competitive. The long-term effects of high unemployment will be felt in our failure to adapt to change. There is nothing for workers to adapt to when there are no jobs.

You talk about robotics. How can you get an industry to restructure itself so as to increase its productivity, to make it competitive with the products of other countries, without having something someplace for those workers to go? When unemployment is 9.8 percent nationwide, and we have double-digit unemployment in our industrial areas where the very restructuring has to come, the long-term consequences of that unemployment impacting on our ability to adjust to these structural changes may be even far more serious than the $320 billion of lost short-term output.

Business investment plants are increasingly gloomy and the technological change that we need and its potential for raising productivity growth and making industries more competitive cannot occur without investment, because we know that technological change must be embodied in new investment. How can we convert our steel industry away from old-fashioned noncompetitive open hearth techniques to the more efficient processes? If there is no investment in the steel industry—you can't convert your equipment without new investment. We must make our economy more competitive. It is much easier when workers have some other jobs to go to.

We know already there is going to be a severe skill shortage in the future, but it is pointless to train workers for jobs that don't exist. In short, our free enterprise economy has the inherent capability to adjust to structural change with a minimum of Government interference provided that there are jobs to adjust into. The costs of high unemployment that results from impeding these changes are immeasurable. The recent proposals to restrict auto imports alone have been estimated to cost American consumers from 10 to $15 billion a year. Now, you combine this, the cost of restricting imports of steel and other products instead of these industries getting down to the business of restructuring, and you are going to build up a very, very high ledger indeed.

Let me turn to a related issue, and that has to do with the profile of the unemployed. Because of the high unemployment in these previously high-wage industries of automobiles and steel and construction, the profile of the unemployed is quite different from a decade ago, and this has consequences for public programs such as unemployment insurance, training and public service employment. Up until the mid-1970's, most structural longer term unemployment was among unskilled formerly low-wage workers. Unemployment insurance replaced a relatively high proportion of income for these workers, and among high-wage workers cyclical unemployment was characterized by much shorter spells than is currently the case, so unemployment insurance at least could be viewed as something of a stop gap.

Today unemployment is still quite serious among low-wage workers, particularly black youth, but we also now have prospects for chronic long-term unemployment among workers accustomed to middle-class lifestyles. The unemployment insurance program that is now in place is simply not enough to replace former earnings. It won't pay their mortgages, make the car payments.

We have experimented, and this current administration is now phasing out, but I don't think we have heard the end of it, with a two-tier system of benefits. We had trade adjustment assistance, workers who could demonstrate that their employment was related to trade policy, they received benefits of upward of $280 per week compared with benefits well below $200 per week for the second tier of unemployment recipients. These programs, such as trade adjustment assistance, which pay relatively high benfits were not designed to deal with long-term chronic unemployment problems.

When I was an official in the Carter administration, we were looking at budget estimates of anywhere from $5 to $10 billion for trade adjustment assistance, if the program then in effect were to be continued. This is because we were expecting longer and longer unemployment spells among autoworkers, steelworkers, and others who were eligible for that. Not only were these programs budget busting, but it was inherently unfair to have two classes of unemployment benefits, but we have to begin to recognize that unemployment among formerly middle-class families, middle-class workers. To some extent, this requires a different type of policy responses than unemployment among lower skilled and poor workers. I am not trying to make any value judgments about whether unemployment is more or less serious in any one group or the other but, rather, to raise the question as to whether the policies we now have in place make any sense.

I would also like to comment briefly just on the notion that was raised in your question that unemployment is somehow less serious because of the emergence of the two-earner family as the prevalent lifestyle. Other changes in lifestyles have also been occurring in recent years, particularly the emergence of the single-parent family that has been referred to. These are families predominantly headed by women. The unemployment rates among these families are outrageously high, 11 to 12 percent, and you have to remember, Mr. Chairman, that many of these families resorted to welfare and are no longer showing up in the unemployment statistics. The breadwinner is out of work but not showing up as unemployed. These families have no resources other than welfare to turn to, which means essentially turning back into the poverty culture.

I am not sure that the two-earner families do not face many of the same problems as single-earner, two-adult families, especially when the male becomes unemployed. My colleague, Dr. Brenner, may want to comment on this problem.

It seems to me family tensions as the result of a male in a two-earner family becoming unemployed when the wife is still employed might be more severe than where the wife is not able to maintain her independent status in a career. With all of these societal lifestyle changes, divorce is becoming more and more a socially acceptable option, and I wouldn't be surprised if the kinds of family problems, divorce, wife beating, all these sorts of things might not be in part attributable to challenges to the male ego when he becomes unemployed and his wife continues to work.

I would like to turn very quickly to the specific questions that your staff asked me to address. One had to do with what happens to demand for goods and services when 12.5 million people are out of work. This 12.5 million number—which is the 10.5 million people who are unemployed plus the couple of million who are discouraged and not looking for work, it is only an average. It is an average figure of the number of persons unemployed in a survey week in a month.

To evaluate the impact of unemployment on demand for goods and services, you ought to look at the number of people that are unemployed over the year, because that really tells you how many people are having to dig into any surpluses that they might have accumulated for buying durable goods. If you are unemployed for a couple of weeks or 5 or 6 weeks during the year, that takes a hefty bite out of money you might have been planning to spend for a new car or some consumer durables, and in fact one-fifth of the total U.S. work force has had some unemployment in the last year. We are speaking about a phenomenon that is considerably more widespread than the unemployment rate suggests. More like 20 percent would have had to curtail their spending plans.

You asked for my assessment of the outlook for unemployment given forecasts of economic growth. The most optimistic forecasts that I have seen, apart from the administration's unrealistic forecasts which even the administration itself seems to admit are not really forecasts, just numbers, call for a very mild rebound. By mild, I mean somewhere in the order of 3 to 4 percent real growth over the next 6 months, as the most rapid growth, and then moderating from there. Normally in a recession as deep as this one, you would expect a rebound of around 10 percent in real growth. With a 3 to 4 percent rebound in growth over a 6-month period, that might possibly bring the unemployment rate down to 9 percent—maybe. The labor force is growing at a rate of about 1½ percent, so if we are growing at 3 to 4 percent for a half a year, we might see the unemployment rate move down slowly to 9 percent but not to much more. Dr. Rivlin talked about 8.5 percent, I think we are in the same ballpark.

I noticed in today's Washington Post, the Brookings Institution has now projected a growth of only four-tenths of 1 percent in 1983 after having dropped by 1 percent in 1981. The economist who did this projection, I might add, is a monetarist economist. He is not a typical liberal Brookings economist by any stretch of the imagination. He is projecting essentially zero growth for the next 2 years, which would mean continually rising unemployment through 1983 with unemployment in the 11-percent range.

Let me just say that nobody foresees a recovery in housing as long as interest rates stay high. Moreover, as long as interest rates stay high, the dollar will remain strong, and this will not help our international competitive position, so that there will continue to be severe problems with what I call the formerly middle class unemployed, many of whom supported the President in the last election, and these people will be facing real financial hardship as their unemployment insurance expires.

As you begin to look at the alternatives Dr. Rivlin did discuss for unemployment insurance, one needs to take into account that many of the people who are losing their eligibility are these formerly middle class. And, there is literally no light at the end of the tunnel for the hard core unemployed, especially the black youth. The human costs, high interest rates, and the misguided economic policies of the Reagan administration have created an economic disaster, while the President and his associates continue to create the impression that the jobless are lazy and not interested in finding work. References and anecdotal comments regarding help wanted advertisements is only one example of this. You might be able to excuse policy errors and judgments of policy, but there is only one thing more demoralizing in our society where status and power and a sense of human dignity almost entirely derive from your job, than being totally jobless, and that is to be told your joblessness is due to your own incompetence and laziness. It is not a humane gesture for our leadership to wave the help wanted ads before TV reporters as evidence that plenty of jobs are there for the taking.

It is understandable that a Republican administration, when it took office, felt that its first priority was bringing down a historically high rate of inflation. However, inflation is not now a serious problem. Surely it is dwarfed in scope beside the huge monumental burden of unemployment. It is not likely to be rekindled by more expansionary monetary and fiscal measures. I sincerely hope that this committee in its wisdom will use its considerable influence on the Federal Reserve and the President to take the unemployment crisis more seriously than it has to date, and to pursue the necessary policies to bring down unemployment and reduce the high economic costs that are resulting from it.

Chairman **Fauntroy**. I thank you for having opened this portion of our hearing on the social and economic costs of unemployment and, following the presentation by Dr. Brenner, we will be pleased to have you respond to some questions. We have looked forward to your presentation on this subject as well, Dr. Brenner, please proceed.

STATEMENT OF M. HARVEY BRENNER, PROFESSOR OF OPERATIONS RESEARCH, THE JOHNS HOPKINS UNIVERSITY

Mr. **Brenner**. Thank you very much, Mr. Chairman.

I was asked to give testimony on the impact of the high rates of unemployment.

The first issue we need to look at is a distinction between the state of being unemployed and high unemployment rate, because a high unemployment rate refers to a situation of very serious recession, and in a situation of very serious recession, the unemployed who are hurt represent a minority of those who are hurt by high unemployment rates.

The impact of an increased unemployment rate is felt by, first, the unemployed persons and their families and other dependents; second, losers of income resulting from the large-scale destruction of small- and medium-sized businesses. And among firms that are financially damaged, employed persons are hurt who work under recessional conditions of chronic and severe work stress, and the underemployed with their correspondingly low wages or salaries represent a final category.

The group that is working in a situation where the survival of their jobs and the firm as a whole is continuously under threat is perhaps the most severely damaged through the situation of chronic stress that accumulates through time and has an effect on illness and mortality rates.

We need, therefore, to consider when we examine the issue of the high unemployment rate, not only the unemployed, their dependents and those who are financially and emotionally related to them, but the chronic stress as well of those who are working under a situation of a damaged firm, and represent the largest proportion, and this is the working population continuing to work; and lastly, the underemployed and lower wage and salary workers representing a still larger chunk of those injured through recessionally high unemployment rates. The situation of actual unemployment or work stress where survival of the firm is threatened is frequently not alleviated for 3 or 4 years or more after the current recession, understanding recession typically to be on the average about a year in the postwar period. The reason for this is that it frequently takes at least 2 to 3 years for the economy to return to its previous levels of employment following the recession. Thus, it is not really correct to assume that the economy has again become healthy as soon as a recession, that is, a business contraction, usually lasting no longer than a year, is over.

Indeed, lagging economic indicators in general, the unemployment rate over 15 weeks, as well as the rate of industrial capacity utilization, manufacturing and materials industries especially, and wages and salaries and goods-producing industries have since World War II usually not returned to prerecession levels for 2 to 4 years following the contraction. Therefore, in many industries beset by high unemployment rates, both the unemployed and employed live under conditions of stress for several years.

You may note my charts at the end of the testimony, figures 6, 7, and 8, which are taken from the Business Conditions Digest, and one can see, as Dr. Norwood's testimony provided similarly, the duration of the economic cycles. Starting with figure 6, and looking at the lagging indicators occurring at the bottom of the page, since the Second World War—1948—the recovery period has gotten longer and longer from roughly 1.0 year to 1.5, 2.5, and 3.5 years, and longer periods of recovery in employment. As we can see in figure 7, and in the vast majority of employment and related indicators, as we can see in figure 8 and indeed as has been pointed out by previous witnesses since the 1970 recession, our unemployment rate has never returned to pre-1970 levels, despite intervening periods of recovery. The results of this economic stress can be seen in forms of deteriorated mental and physical health and increased criminal aggression.

You might turn to page 3, if you will, of the testimony, in which I have presented a table. We estimated the impact of a sustained 1-percent increase in the unemployment rate having an effect over the subsequent 5-year period.

In suicide, for instance, 1 percentage point increase in the unemployment rate during the period 1940 to 1973 had implications for an increase of 4.1 percentage points in that rate. Admissions to State mental hospitals increased 3.4 percentage points; for males, 4.3 percentage points, and females 2.3 percentage points. State prison admissions increased by 4 percentage points; homicide, 5.7; mortality rate from cirrhosis of the liver, 1.9; cardiovascular-renal disease mortality, 1.9; and total mortality, a 1.9-percentage point increase.

These are hard demographic data and do not provide estimates on illness or hospitalization. They are the tip of the iceberg, the end products, situations of mental and physical disorder and criminal aggression occurring over a considerable period associated with increases in the unemployment rate. This study finished in 1976 clearly needs to be updated to deal with the current situation. What we have done, however, in the intervening years, is to recognize that, since the 1960's especially, a variety of new factors have entered into the picture of cardiovascular disease, including the consumption of animal fats, cigarettes, and the consumption of alcohol.

We have continued to develop equations to control for these factors also associated with the economy and continue to observe very similar findings to what we reported to the Joint Economic Committee. We have done a study for the previous White House Youth Employment Task Force, and I shall report on the numerical implications of that in just a moment, and a series of studies in conjunction with the World Health Organization, in which we found a similar phenomenon associated with mortality—suicide, cardiovascular disease, cirrhosis of the liver—in countries such as Canada, England, and Wales; and it is not confined to the United States.

Traditionally, our unemployment rates are considerably higher than those in our comparative European countries. Further, to the extent that family stability suffers from loss of members to mental hospitalization, death, and imprisonment, as well as by a greatly increased number of physical and mental illnesses, it is obviously damaged by higher unemployment rates. But family stability suffers in more direct ways, as well, under conditions of high unemployment. It is especially through the migrating of job seekers, not as a result of attractive job possibilities elsewhere, but by having been forced out of their jobs and out of their cities of residence in order to find other sources of livelihood. Such migration of family heads, which is accelerated further by loss of homes through mortgage foreclosures, serves to uproot families from their communities and away from their relatives, friends, and larger network of social relations. When large numbers of job-seeking migrants leave an area especially hard hit by loss of employment, the entire community structure is frequently broken apart. Situations like this are occurring in parts of the country in which durable goods manufacturing is the dominant industry.

Added to the problems of the migrants, and those who lose their homes through foreclosure, are those of the elderly who are left behind and frequently isolated. The problem of social isolation is particularly important to problems of ill health in the elderly who, because they usually are not employed, may lose a vital source of social contact when their children or other relatives must emigrate. The migration problem is of course most severe on the poor and less skilled who have little hope of finding jobs elsewhere and who then constitute the basis of impoverished cities with eroding tax structures and an inability to maintain adequate levels of health, education, welfare, and physical intrastructures.

There are, in addition, very special societal problems associated with youth unemployment. Particularly under conditions of structural unemployment, there is a destruction of the cultural basis by which youth, especially males, become adult—namely, through work. The children of fathers who traditionally worked in manufacturing jobs, for example, frequently assume that their adult working and social lives will resemble those of their fathers. By the time they find out that those jobs are no more, that the usual cultural path to adulthood has vanished, they are usually unable to shift easily into alternative occupations for which they have not trained. Nor, since they lack training, are they very willing to enter the lowest levels of service sector employ which they find to be dead end in terms of life career patterns and very low wage in any case. The result of this major disturbance to the maturation process and resulting disappointment, demoralization, and rage can again be seen in substantial damage to mental and physical health and increased criminal aggression.

Analyses of youthful pathology—mortality due to suicide, homicide, and accidents, mental hospitalization, and arrests for 1947 to 1976—were completed for the Vice President's Task Force on Youth Employment:

> The ratio of youth to total unemployment rates is clearly an outstanding factor in nearly all of the major pathologies examined in this study. Among the health indices, it is statistically significant in homicide mortality at nearly all ages and motor vehicle mortality for 15- to 24-year-olds, as well as 15- to 24-year-old mental hospital resident patients. It is significant in all the major index crimes reported to the police except larceny, and for arrests among 15- to 24-year-olds, it is significant for criminal homicide, assault, forcible rape, robbery, auto theft, narcotics, prostitution and total arrests.

The effects of unemployment in the current recession are likely to be more serious than those in previous post-World War II recessions for several reasons. First, there is considerably more structural unemployment—indeed, there is industrial decline in the automobile, steel, and other high-wage durable goods industries. Because of the structural basis of much of the current unemployment, reemployment in the same industries is not likely to be rapid, nor is reemployment in other industries likely to occur quickly because extensive retraining is required and is not occurring at present. Moreover, there has been a curtailment of benefits for unemployment of long duration, as well as losses of health insurance coverage for the long-term unemployed. The current high interest rates are further slowing the general economic recovery, which will mean that it will take an even longer time for employment and unemployment to reach prerecession levels, referred to in the chart. The longer duration of unemployment and work-stress, foreclosures and bankruptcies will probably lead to higher rates of mental and physical illness, mortality, and criminal aggression.

I would like to turn your attention to figures 1 through 5, which are relatively simple charts of the relationship between employment and a variety of sources of mortality. The most famous of these is the suicide rate which has traditionally been very acutely focused on changes in employment and unemployment, increasing within a year of recession, and we are able to trace this in at least 10 countries at the present time and certainly in our own country since the beginning of the century. Figure 1(a) is an example of the effect of rapid changes in unemployment for the years 1905 to 1975 showing a similar relationship, and we see the same types of relationships when we look at the mortality of the entire population of roughly middle age, 50 to 54, and that is figure 2, and in the infant mortality for the total population of infants, for whites, and for nonwhites in figures 4 and 5. The unemployment rate continues to be extremely high, higher than at any time since the early 1940's. This situation is maintained to an appreciable extent because construction and other interest-rate-sensitive industries are unable to lead the recovery.

All in all, the effects of unemployment in this recession are likely to be worse than in previous postwar recessions because, one, the rates of unemployment are higher than at any time since 1941; two, the recession is apparently to be of long duration, both in its contraction and recovery phases, and three, there is no national vision or plan to accomplish the training or retraining of either the experienced workers in manufacturing whose unemployment this time is structural, not cyclical, or the inexperienced, untrained teenagers who need job skills for a highly technological economy. The steadily increasing participation of women in the work force means there are probably more one-earner households that were once two-earner households, so that some earned income remains available. But the level of income is greatly reduced, particularly if the employed adult is a female, whose pay averages much less than the pay of males.

The higher rates of unemployment increase the risks of being unemployed, of being a member of a family in which someone is unemployed, and of being an anxious worker worried about whether one's own job is next to be eliminated. White collar workers and workers with high seniority levels have been directly affected in this recession more than previously. It is likely that so pervasive a recession affects almost everyone in the country, directly or indirectly, through the experiences or fears of friends and family. In some communities the rates of joblessness are so high that many of the usual arrangements for sharing and cooperation are less helpful, one's family and neighbors are all in difficulty, too.

The long duration of recession, including long duration of unemployment, means that some of the usual methods a family would use to carry itself through to reemployment are exhausted; unemployment benefits, savings, health insurance, patching, repairing, and restoring only last so long. Meanwhile, illnesses become chronic, poor nutrition and lack of care exacerbate them, built-up frustrations lead to aggression inside and outside the family, and increased mortality creates new losses. The effects of this long spiral of disruption of lives, of illness, and death will be with us for years after the economy reaches a trough.

For young people expecting to find work and establish a family there is delay, discouragement, and disappointment in the current lack of opportunity and the future prospects of slow growth. For older workers forced into retirement before they are ready to quit earning, there is an irretrievable loss of opportunity to establish a more secure fiancial basis for retirement.

The most important difference between this recession and most others is that it reflects structural change in the economy; many workers in the extractive and manufacturing sectors are not going to find reemployment at their old jobs, nor are their sons and daughters, or younger brothers and sisters going to find work careers in these stable or contracting industries. Training for services and communications sector jobs, and for lighter industrial work, is necessary to bring these displaced workers back into productive roles. Many jobs in the services sector have traditionally been held by women and have relatively low pay and little security or opportunity for advancement. These jobs can be associated with a great deal of work stress, even though the unemployment rates are much higher in such traditionally male-dominated industries as construction.

A particularly distressing sign for the productive future of our economy is record levels of teenaged unemployment, running lately to a level of 50 percent among black teenagers. Add the discouraged young people who are not actively seeking work, add the college youth unable to afford further expenses or to borrow against future earnings, and one asks what kind of messages are we sending to young people about their individual worth as productive citizens and their realistic aspirations for building a good life based on their productive work. Our work on the effects of youth unemployment suggests the toll in mental disorder, crime, and accident that can be anticipated as a result of youthful unemployment rates of 2½ times the national average.

I will not go on with the submitted statement, and I will be ready to answer your questions.

[Mr. Brenner's prepared statement, "Assessing the Social Costs of National Unemployment Rates," follows:]

STATEMENT OF M. HARVEY BRENNER

ASSESSING THE SOCIAL COSTS OF NATIONAL UNEMPLOYMENT RATES

The impact of an increased unemployment rate is felt by (a) unemployed persons and their families and other dependents, (b) losers of income resulting from the large scale destruction of small and medium sized businesses and (c) employed persons who work under recessional conditions of chronic and severe work stress. The last group is working in a situation where the survival of their jobs, and the firm as a whole is continuously under threat.

This situation of actual unemployment, or work stress where survival of the firm is threatened, is frequently not alleviated for two to four years or more after the occurrence of recession. The reason for this is that it frequently takes at least 2-3 years for the economy to return to its previous levels of employment following a recession. Thus it is not really correct to assume that the economy has again become healthy as soon as a recession — i.e., business contraction usually lasting no longer than a year — is over. Indeed, lagging economic indicators in general (especially the average duration of unemployment and the unemployment rate over 15 weeks), as well as the rate of industrial capacity utilization (manufacturing and materials industries), and wages and salaries in goods-producing industries, have since World War II usually not returned to pre-recession levels for 2 to 4 years. Therefore, in many industries beset by high unemployment rates, both the unemployed and employed populations live under continuous stress for several years.

The results of this economic stress can be seen in forms of deteriorated mental and physical health and increased criminal aggression.

In the fall of 1976, the Joint Economic Committee of the United States Congress published the results of a study by M. Harvey Brenner of The Johns Hopkins University on the basis of which it was estimated that the 1.4 percentage-point rise in unemployment during 1970 accounted for 51,570 more deaths between 1970 and 1975 than would have occurred had the unemployment rate not risen in 1970 (1). The study, entitled "Estimating the Social Costs of National Economic Policy: Implications for Mental and Physical Health and Criminal Aggression", showed that rates of mortality, mental hospitalization, and imprisonment for periods of approximately 25 years, beginning between 1935 and 1940 and ending between 1970 and 1973, could be explained by measures of economic activity—per capita income, unemployment and inflation rates. Multivariate time-series regression equations were developed for the United States as a whole, for three states and for two other countries. "The data showed that the association between the unemployment rate and all the pathological indices was statistically significant" (1, p. 89). The unemployment rate was interpreted as a multidimensional measure of stress, indicating loss of work loss of income, and damage to self-esteem and social relationships.

On the basis of these analyses, estimates were made of the increased incidence of pathology and the economic losses, in dollars, resulting from the 1.4 percentage-point rise in unemployment during 1970. These estimates were cited with concern by the late Senator Hubert H. Humphrey when the report was published (at that time, in 1976, the unemployment rate was about 8 percent, or 3 points higher than it had been in 1970).

Table 1

IMPACT OF A SUSTAINED ONE-PERCENT CHANGE IN UNEMPLOYMENT

Social Stress Indicator	Data Period	Change in the Stress Indicator 1/
Suicide:	1940-1973	4.1%
State Mental Hospital Admissions:	1940-1971	3.4
Males—		4.3
Females—		2.3
State Prison Admissions:	1935-1973	4.0
Homicide:	1940-1973	5.7
Cirrhosis of the Liver Mortality:	1940-1973	1.9
Cardiovascular—Renal Disease Mortality:	1940-1973	1.9
Total Mortality:	1940-1974	1.9

1/ Measured as a proportion of the total indicator incidence occurring in the fifth year following the one-percent change in unemployment.

These data continue to be cited today, particularly in regions of the country plagued with extraordinarily high rates of unemployment. Legislators, administrators, journalists, academic researchers, and professional health and welfare workers, however, all appreciate the difficulties of extrapolating in 1982 from a study completed six years earlier.

The importance of bringing the empirical models, and the estimates based on them, up to date is clear.

Further, to the extent that family stability suffers from loss of members to mental hospitalization, death and imprisonment, as well as by a greatly increased number of physical and mental illnesses, it is obviously damaged by higher unemployment rates.

But family stability suffers in more direct ways, as well, under conditions of high unemployment. It is especially through the migrating of job seekers—not as a result of attractive job possibilities elsewhere, but by having been forced out of their jobs and out of their cities of residence in order to find other sources of livelihood. Such migration of family heads, which is accelerated further by loss of homes through mortgage foreclosures, serves to uproot families from their communities and away from their relatives, friends and larger network of social relations. When large numbers of job-seeking migrants leave an area especially hard hit by loss of employment, the entire community structure is frequently broken apart. Situations like this are occurring in parts of the country in which durable goods manufacturing is the dominant industry.

Added to the problems of the migrants, and those who lose their homes through foreclosure, are those of the elderly who are left behind and frequently isolated. The problem of social isolation is particularly important to problems of ill-health in the elderly who, because they usually are not employed, may lost a vital source of social contact when their children or other relatives must emigrate.

The migration problem is of course most severe on the poor and less skilled who have little hope of finding jobs elsewhere and who then constitute the basis of impoverished cities with eroding tax structures and an inability to maintain adequate levels of health, education, welfare and physical intrastructures.

SUBSEQUENT STUDIES

The study for the Joint Economic Committee (JEC) found very powerful relationships for the period 1940-1973 between national economic indices—per capita income, unemployment, and inflation—and a number of measures of mortality, as well as of mental health and criminal aggression. While the study for the JEC has not as yet been brought up to date, research over the past six years has reinforced and corroborated the results of that study. These analyses have been replicated for Canada (unpublished) and for England and Wales (4) with substantially the same results. Subsequently, it was established that United States mortality, total and age-specified, for the period 1909-1976, is highly predictable from a multivariate regression model with four independent variables that measure the trend in long-term per-capita income; residuals from the trend, understood as a measure of rapid economic growth; the unemployment rate, lagged 2 or 3 years; and government expenditures for welfare as a proportion of all government expenditures (5).

There are, in addition, very special societal problems associated with youth unemployment. Particularly under conditions of structural unemployment, there is a destruction of the cultural basis by which youth, especially males, become adult—namely, through work. The children of fathers who traditionally work in manufacturing jobs, for example, frequently assume that their adult working and social lives will resemble those of their fathers. By the time they find out that those jobs are no more, that the usual cultural path to adulthood has vanished, they are usually unable to shift easily into alternative occupations for which they have not trained. Nor, since they lack training, are they very willing to enter the lowest levels of service sector employment which they find to be dead-end in terms of life career patterns and very low wage in any case. The result of this major disturbance to the maturation process and resulting disappointment, demoralization and rage can again be seen in substantial damage to mental and physical health and increased criminal aggression.

Analyses of youthful pathology—mortality due to suicide, homicide, and accidents, mental hospitalization, and arrests for 1947-76—were completed for the Vice President's Task Force on Youth Employment. "The ratio of youth to total unemployment rates is clearly an outstanding factor in nearly all of the major pathologies examined in this study. Among the health indices, it is statistically significant in homicide mortality at nearly all ages and motor vehicle mortality for 15-24 year olds, as well as 15-24 year old mental hospital resident patients. It is significant in all the major index crimes reported to the police except larceny, and for arrests among 15-24 year olds, it is significant for criminal homicide, assault, forcible rape, robbery, auto theft, narcotics, prostitution and total arrests" (2, p. 19).

"The eleven-year moving average in real per capita income was significantly positively related to the overwhelming number of indices of youthful pathology including all of the mortality categories and nearly all categories of the two sets of criminal justice data. The single pathological indicator for youth showing an inverse relation to this variable is mental hospital resident patients. This finding probably reflects the long-term tendency for youth to utilize community mental health services, rather than mental instituitons, when requiring psychiatric care" (2, p. 20).

The most recent studies, as yet unpublished, deal with mortality in the population 45 aNd over, with particular emphasis on explanation of sex differences by reference to risk factors such as use of tobacco and alcohol.

In these studies we are also finding that involuntary retirement as measured by the ratio of the unemployment rate over 65 years of age to the total unemployment rate, is a significant factor in mortality of the male and female population over 65.

COMPARISONS WITH THE CURRENT RECESSION

The effects of unemployment in the current recession are likely to be more serious than those in previous post-World War II recessions for several reasons. First, there is considerably more structural unemployment—indeed, there is industrial decline in the automobile, steel and other high-wage durable goods industries. Because of the structural basis of much of the current unemployment, re-employment in the same industries is not likely to be rapid; nor is re-employment in other industries likely to occur quickly because extensive retraining is required—and is not occurring at present. Moreover, there has been a curtailment of benefits for unemployment of long duration, as well as losses of health insurance coverage for the long-term unemployed.

The current high interest rates are further slowing the general economic recovery—which will mean that it will take an even longer time for employment and unemployment to reach pre-recession levels. The longer duration of unemployment and work-stress, foreclosures and bankruptcies will probably lead to higher rates of mental and physical illness, mortality and criminal aggression. The unemployment rate continues to be extremely high, higher than at any time since the early 1940's. This situation is maintained to an appreciable extent because construction, and other interest-rate-sensitive industries are unable to lead the recovery.

All in all, the effects of unemployment in this recession are likely to be worse than in previous post-War recessions because (1) the rates of unemployment are higher than at any time since 1941,

(2) the recession is apparently to be of long duration, both in its contraction and recovery phases, and (3) there is no national vision or plan to accomplish the training or retraining of either the experienced workers in manufacturing whose unemployment this time is structural, not cylical, or the inexperienced, untrained teenagers who need job skills for a highly technological economy. The steadily increasing participation of women in the workforce means there are probably more one-earner households that were once two-earner households, so that some earned income remains available. But the level of income is greatly reduced, particularly if the employed adult is a female, whose pay averages much less than the pay of males.

The higher rates of unemployment increase the risks of being unemployed, of being a member of a family in which someone is unemployed, and of being an anxious worker, worried about whether one's own job is next to be eliminated. White collar workers and workers with high seniority levels have been directly affected in this recession more than previously. It is likely that so pervasive a recession affects almost everyone in the country, directly or indirectly through the experiences or fears of friends and family. In some communities the rates of joblessness are so high that many of the usual arrangements for sharing and cooperation are less helpful—one's family and neighbors are all in difficulty, too.

The long duration of recession, including long duration of unemployment, means that some of the usual methods a family would use to carry itself through to re-employment are exhausted—unemployment benefits, savings, health insurance, patching, repairing, and restoring only last so long. Meanwhile, illnesses become chronic, poor nutrition and lack of care exacerbate them, built-up frustrations lead to aggression inside and outside the family, and increased mortality creates new losses. The effects of this long spiral of disruption of lives, of illness, and death will be with us for years after the economy reaches a trough. For young people expecting to find work and establish a family there is delay, discouragement and disappointment in the current lack of opportunity and the future prospects of slow growth. For older workers forced into retirement before they are ready to quit earning, there is an irretrievable loss of opportunity to establish a more secure financial basis for retirement.

The most important difference between this recession and most others is that it reflects structural change in the economy: many workers in the extractive and manufacturing sectors are not going to find re-employment at their old jobs, nor are their sons and daughters, or younger brothers and sisters going to find work careers in these stable or contracting industries. Training for services and communications sector jobs, and for lighter industrial work, is necessary to bring these displaced workers back into productive roles.

Many jobs in the services sector have traditionally been held by women and have relatively low pay and little security or opportunity for advancement. These jobs can be associated with a great deal of work stress, even though the unemployment rates are much higher in such traditionally male-dominated industries as construction. A particularly distressing sign for the productive future of our economy is record levels of teenaged unemployment, running lately to a level of 50% among black teenagers. Add the discouraged young people who are not actively seeking work, add the college youth unable to afford further expenses or to borrow against future earnings, and one asks what kind of messages are we sending to young people about their individual worth as productive citizens and their realistic aspirations for building a good life based on their productive work. Our work on the effects of youth unemployment suggeststhe toll in mental disorder, crime, and accidents that can be anticipated as a result of youthful unemployment rates of two-and-a-half times the national average.

RELEVANCE OF CURRENT POLICIES

The only sure way to offset the social costs of unemployment is to pursue policies that maintain economic stability and prevent unemployment from occurring. Given that such policies will never be completely successful, a variety of programs have been instituted that in the past helped to cope with the problem. They address income losses, job losses and training, nutrition, health services, and social services.

In all of these areas, we are currently providing—or planning to provide—less support to the unemployed than in the past. For instance, income is maintained by unemployment benefits, regular and extended, supplemental unemployment benefits (SUB), and welfare benefits—AFDC and the like. We have seen limitations on eligibility, low levels of payment, or elimination of benefits altogether in the various income support programs. It is reported (Business Week, June 21, 1982, p. 42, col. 2) that "only about 40% of the jobless get (unemployment) benefit checks now", whereas in the 1973-74 recession about two-thirds of the unemployed were eligible.

Severe cutbacks in public service employment and job training programs have eliminated for most of the unemployed important opportunities either to perform useful work after loss of a job or to train in skills for which there is a reasonable hope of a demand in the future. Reductions in aid to education, especially student loan programs, curtail opportunities for preparation in every field of endeavor. Periods of recession are particularly opportune times to invest in human resources—knowledge, skills, experience—as a basis for future economic growth. Current policies are abandoning a valuable opportunity to assist citizens to help themselves and to contribute to the economy as a whole.

Adequate, nutritionally balanced diets are more and more appreciated as the basis for good health at every stage of development from conception to old age. Even in the absence of gross nutritional deficiency, diet and nutritional status affect susceptibility to illness and injury, mental and physical development, and energy levels. Reductions in food stamps and school lunches, at the same time as family income supports are reduced for the unemployed, threaten the nutritional health of people of all ages, but especially of vulnerable fetuses, infants, and children.

Access to health services and social services is critical for families and individuals whose insurance coverage has lapsed and whose incomes are low. While the need for these services is expanding, the financial support for them at the local level contracts. For example, childhood immunizations and other preventive health services—curtailed by budget cuts—save much needless pain, costly medical care, disability, and death. There is no excuse for a civilized society to threaten the health of its youngsters tomorrow for the sake of a few dollars saved today. Family stability is jeopardized by stringent AFDC eligibility rules that encourage the breakup of established families and by limitations in the family-planning services that could prevent births to teenagers unable to take on parental responsibilities.

Many of the programs referred to by name or allusion are probably not ordinarily proposed or supported as elements of a policy to moderate the effects of unemployment. But to the extent that they minimize or counteract the disruptions to family and community life imposed by unemployment, income, job training, education, nutrition, and health, social programs provide a valuable potential antidote.

REFERENCES

1. U.S., Congress. Joint Economic Committee. Estimating the Social Costs of National Economic Policy: Implications for Mental and Physical Health and Criminal Aggression, by M. Harvey Brenner. Washington: U.S. Government Printing Office, October 26, 1976.

2. Brenner, M.H., Estimating the Social Costs of Youth Employment Problems (commissioned by the Vice President's Task Force on Youth Employment, published under auspices of Center for Public Service, Brandeis University), April, 1980.

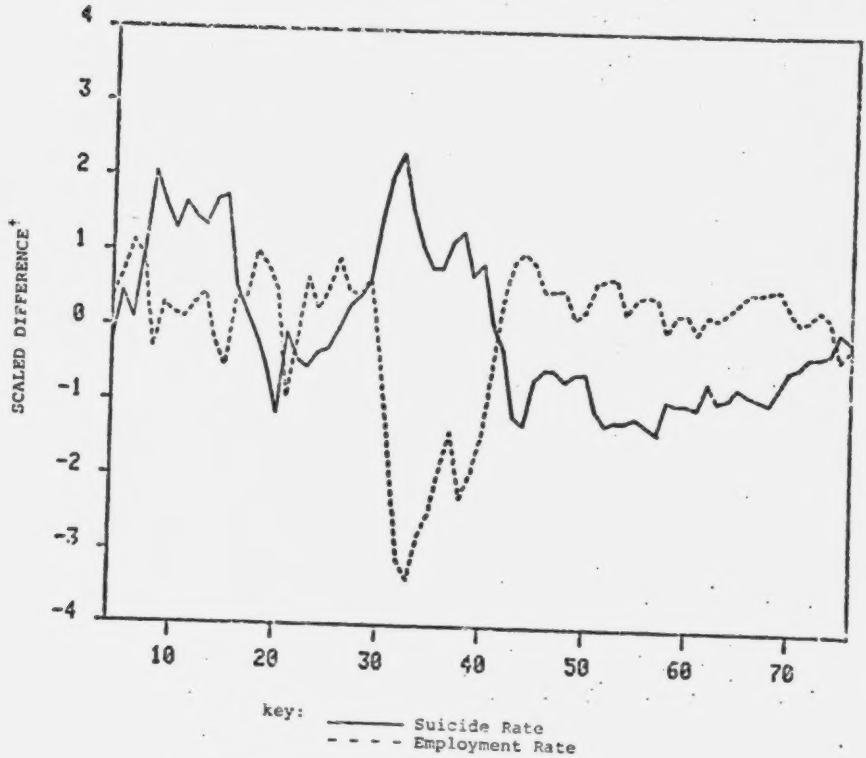
3. Brenner, M.H., "Health Costs and Benefits of Economic Policy," International Journal of Health Services, 7:(4) 581-623 (1977).

4. Brenner, M.H., "Mortality and the National Economy: A Review, and the Experience of England and Wales, 1936-1976," The Lancet, 568-573 (Sept. 15, 1979).

5. Brenner, M.H., "Industrialization and Economic Growth: Estimates of their Effect on the Health of Populations," in M.H. Brenner, A. Mooney, T.J. Nagy, eds. Assessing the Contributions of the Social Sciences to Health, 65-115. AAAS Symposium 26, Boulder, Colorado: Westview Press, 1980.

FIGURE 1

GRAPHIC ANALYSIS OF THE RELATION BETWEEN THE
SUICIDE RATE AND THE EMPLOYMENT RATE*,
UNITED STATES, 1905-1976

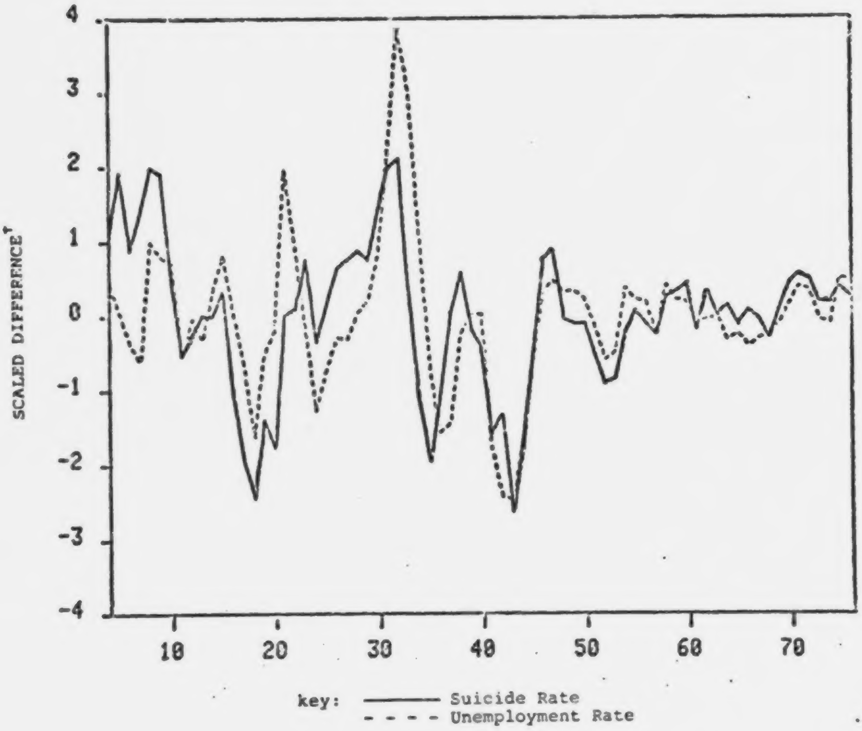


*Employment Rate = Inverted Unemployment Rate

†Scaled Difference: Both series are scaled for viewing such that the greatest amplitude from the arithmetic mean of each series, which is set equal to zero, has been normalized to within the range of +4.00 if positive, or -4.00 if negative.

FIGURE 1A

GRAPHIC ANALYSIS OF THE RELATION BETWEEN
CHANGES* IN THE SUICIDE RATE AND CHANGES*
IN THE UNEMPLOYMENT RATE, UNITED STATES, 1903-1976

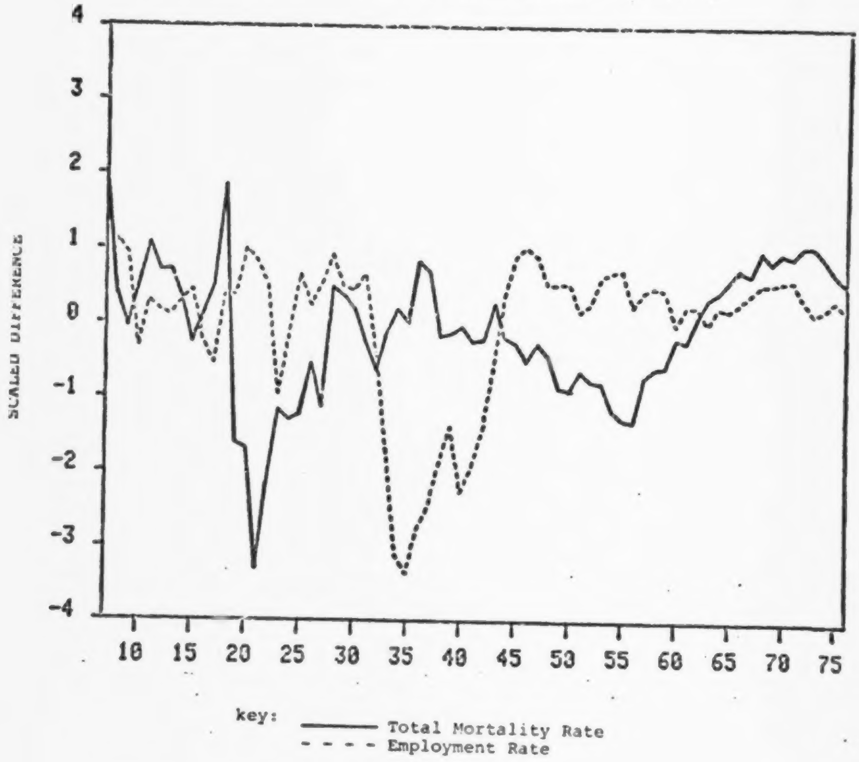


*Changes: three-year arithmetic differences

†Scaled Difference: Both series are scaled for viewing such that the greatest amplitude from the arithmetic mean of each series, which is set equal to zero, has been normalized to within the range of +4.00 if positive, or -4.00 if negative.

FIGURE 2

GRAPHIC ANALYSIS OF THE RELATION BETWEEN THE TOTAL MORTALITY RATE OF THE POPULATION AGED 50-54* AND THE EMPLOYMENT RATE**, UNITED STATES, 1907-76



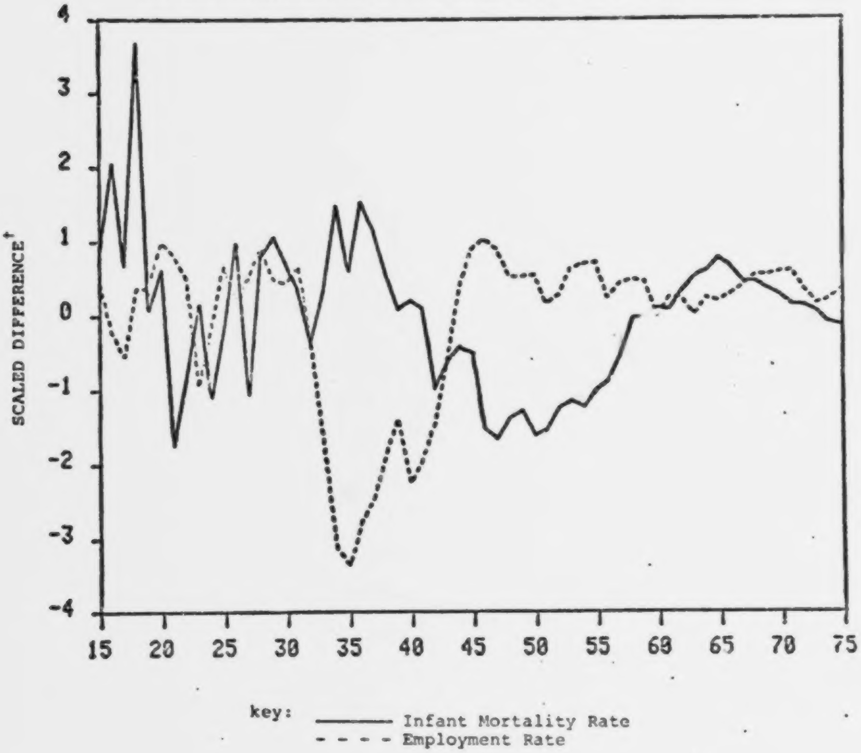
*Long-term trends subtracted from the mortality series

**Employment Rate = Inverted Unemployment Rate. Employment Rate is lagged two years.

†Scaled Difference: Both series are scaled for viewing such that the greatest amplitude from the arithmetic mean of each series, which is set equal to zero, has been normalized to within the range of +4.00 if positive, or -4.00 if negative.

FIGURE 3

GRAPHIC ANALYSIS OF THE RELATION BETWEEN
THE TOTAL INFANT MORTALITY RATE*
AND THE EMPLOYMENT RATE**, UNITED STATES, 1915-1975



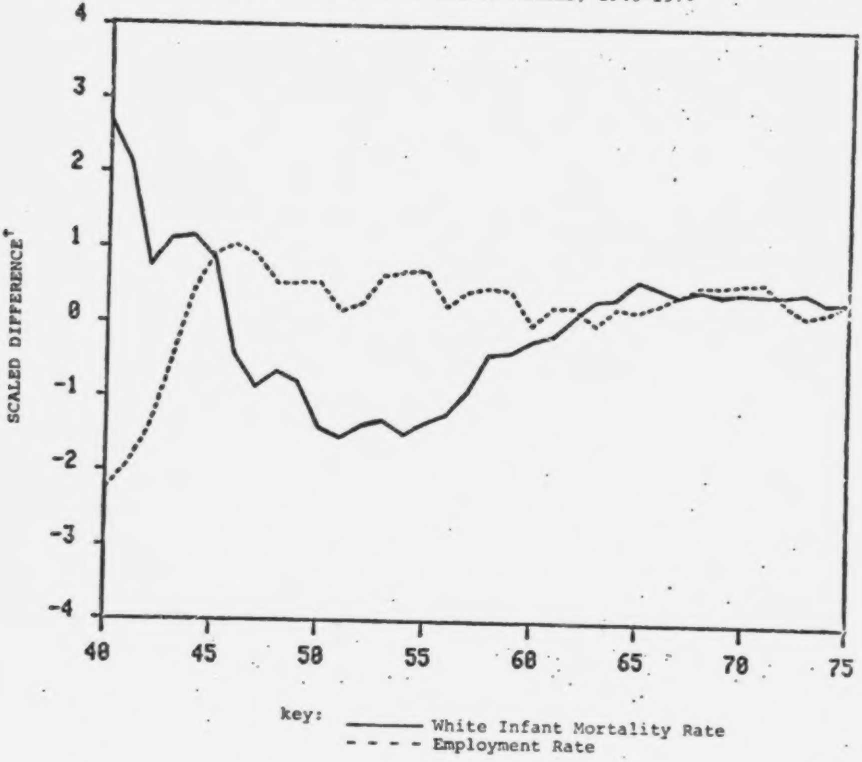
*Long-term trends subtracted from the mortality series.

**Employment Rate = Inverted Unemployment Rate. Employment Rate is lagged two years.

†Scaled Difference: Both series are scaled for viewing such that the greatest amplitude from the arithmetic mean of each series, which is set equal to zero, has been normalized to within the range of +4.00 if positive, or -4.00 if negative.

FIGURE 4

GRAPHIC ANALYSIS OF THE RELATION BETWEEN
THE WHITE INFANT MORTALITY RATE*
AND THE EMPLOYMENT RATE**, UNITED STATES, 1940-1975



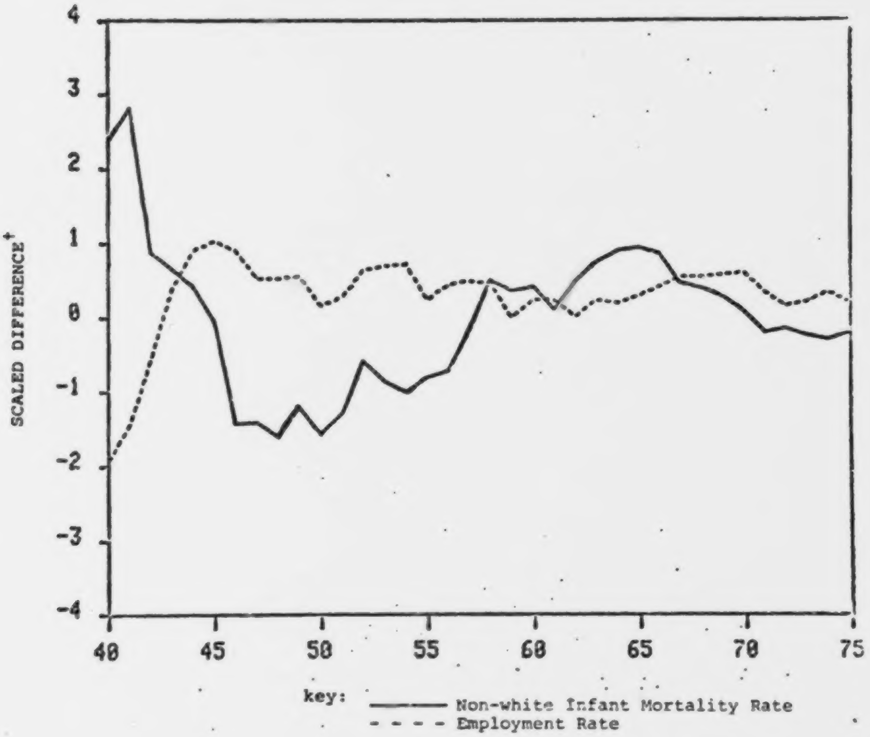
*Long-term trends subtracted from the mortality series

**Employment Rate = Inverted Unemployment Rate. Employment Rate is lagged two years.

†Scaled Difference: Both series are scaled for viewing such that the greatest amplitude from the arithmetic mean of each series, which is set equal to zero, has been normalized to within the range of +4.00 if positive, or -4.00 if negative.

FIGURE 5

GRAPHIC ANALYSIS OF THE RELATION BETWEEN
THE NON-WHITE INFANT MORTALITY RATE*
AND THE EMPLOYMENT RATE**, UNITED STATES, 1940-1975



*Long-term trends subtracted from the mortality series

**Employment Rate = Inverted Unemployment Rate. Employment Rate is lagged one year.

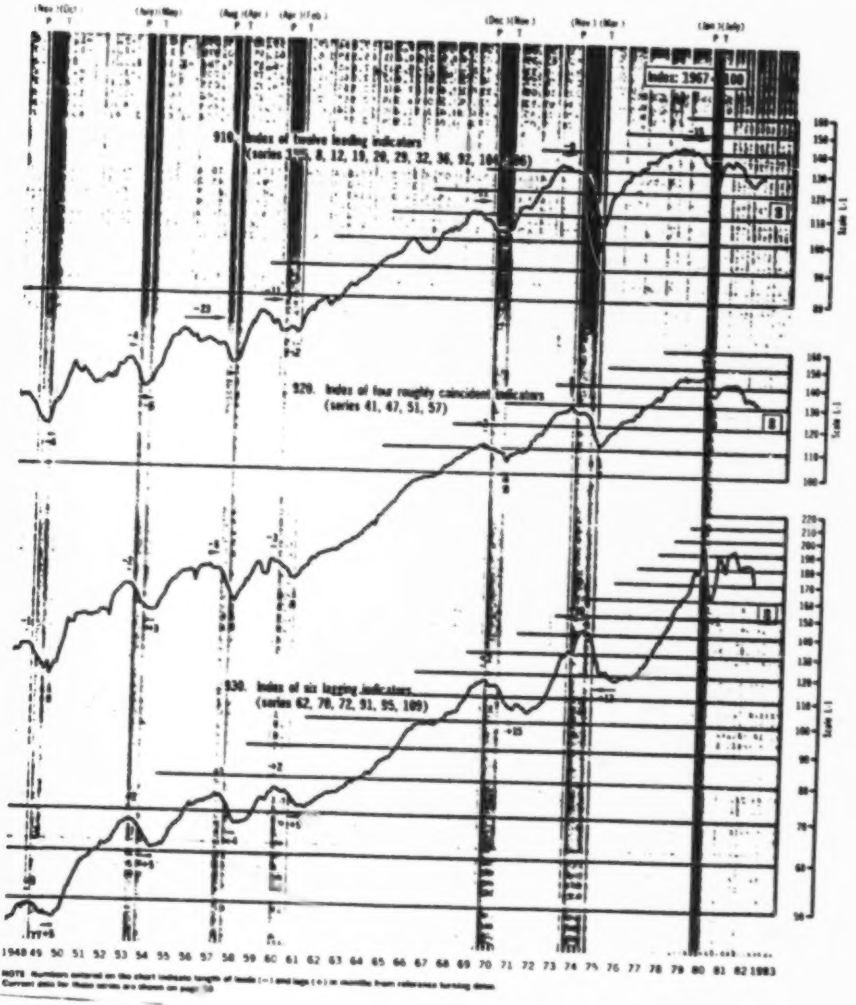
†Scaled Difference: Both series are scaled for viewing such that the greatest amplitude from the arithmetic mean of each series, which is set equal to zero, has been normalized to within the range of +4.00 if positive, or -4.00 if negative.

Figure 6

I CYCLICAL INDICATORS

A COMPOSITE INDEXES AND THEIR COMPONENTS

Chart A1. Composite Indexes



NOTE: Numbers entered on the chart indicate length of leads (−) and lags (+) in months from reference turning dates.
Current data for these series are shown on page 10.

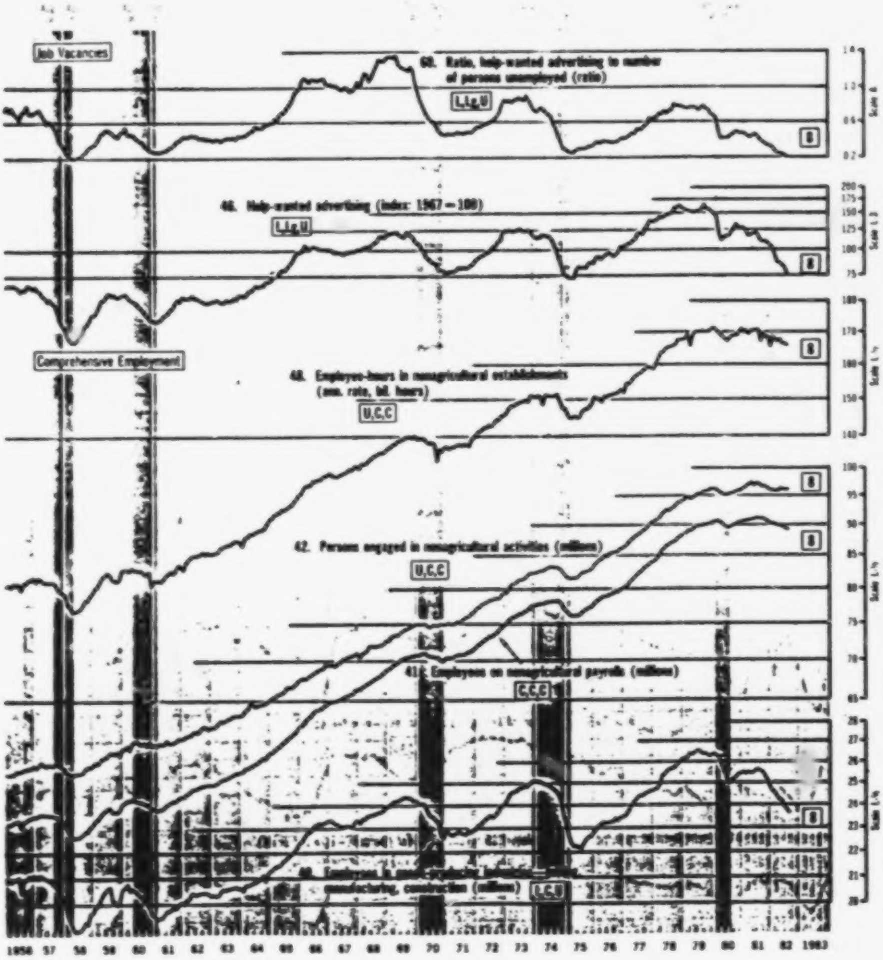
REPRODUCED FROM
BEST AVAILABLE COPY

Figure 7

I B CYCLICAL INDICATORS

CYCLICAL INDICATORS BY ECONOMIC PROCESS—Continued

Chart B1. Employment and Unemployment—Continued



Current data for these series are shown on pages 61 and 62.

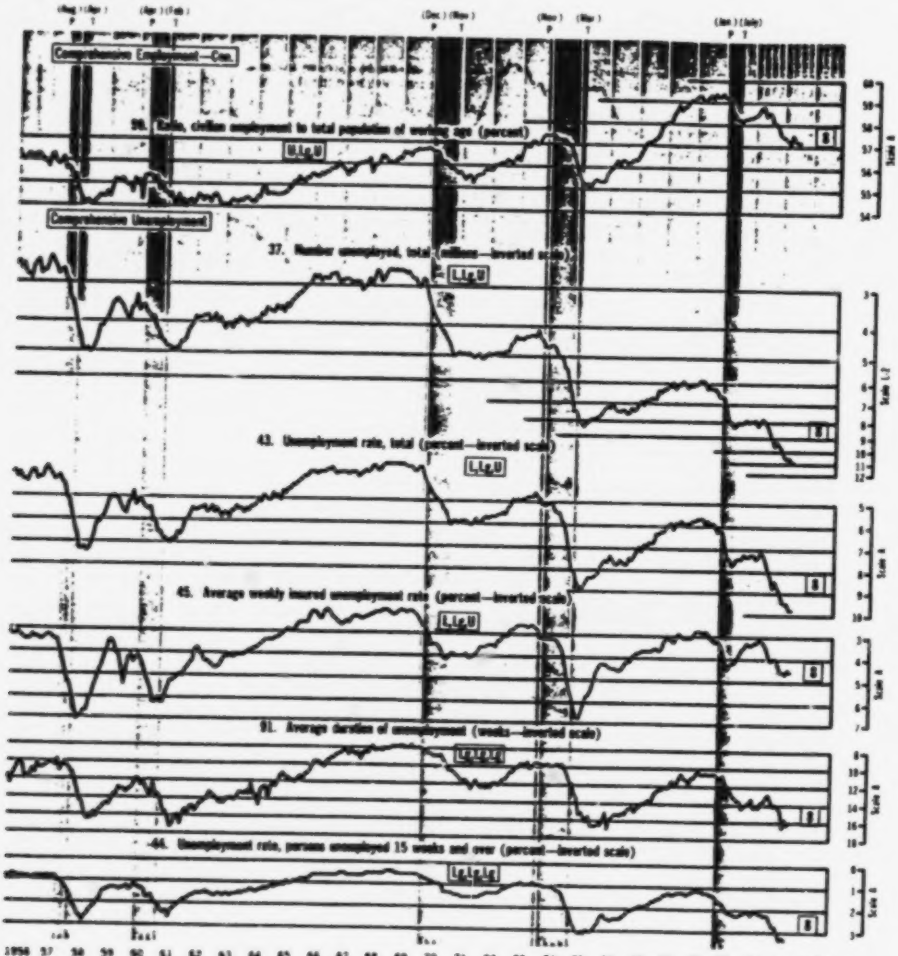
ROFILMED F
ST AVAILABL

I B CYCLICAL INDICATORS

Figure 8

CYCLICAL INDICATORS BY ECONOMIC PROCESS—Continued

Chart B1. Employment and Unemployment—Continued



Current data for these series are shown on page 62.

MICROFILMED FROM
BEST AVAILABLE COPY

Chairman **Fauntroy**. I thank both of you for this added human dimension of the impact on the unemployment to our hearing. The current unemployment rate of 9.8 percent is the highest since 1941. How would you compare the effects of the current employment rate with that, say, in 1941? Would the growth of two-income families offset the decline in extended families and the larger number of single-parent families?

Ms. **Barrett**. It is difficult to make statements about relative burdens when the structure of family life has changed as much as it has. Our lifestyles are very much different today than they were then. In 1941, we were getting into the Second World War, and I am not sure we can characterize the welfare effects of that in any meaningful way, but I do think it is important to go back to the question that seemed to be concerning you very much, and that was the flexibility of our economy to adjust to all these seeming crises that have happened to it over the past decade.

We came out of the Second World War dominant in the world economy, both financially and in terms of the goods and services that we produced. We only traded about 4 percent of our gross national product with other countries. Today, we trade over 10 percent. Partly, that is because we are having to import more oil and hence we have to export more, but the fact of the matter is we are a much more open economy than we were and compounded with that has been the coming of age of our major trade partners. They were not able to compete with us; we really had a very sheltered world market for a long time in the manufacturing sector.

I still believe that our economy has the potential for being a viable competitive force in the world economy, but we cannot in the context of the free enterprise economy which we all value, expect the kind of flexibility in adapting to change when we have unemployment of 9.8 percent. You were addressing this, Mr. Chairman, in somewhat the opposite way. To what extent is unemployment the result of the structure problem? I am saying the unemployment is exacerbating the structural problem. If we don't want to end up with lemon socialism, that is, propping up all the lemons or going the way of Great Britain—"Thatcherism" imposed on top of lemon socialism is a recipe for disaster—we must reduce unemployment.

Chairman **Fauntroy**. Many of those who are now unemployed worked in industries like steel, autos, rubber, and construction materials, which may well be experiencing not only structural, but cyclical, declines, as well. Given the changes going on in these industries, will unemployment fall as rapidly after this recession compared to previous recessions, and/or do you think that the contractions in these industries will leave larger numbers of workers with no jobs with the same skill requirements in the same areas as before?

Ms. **Barrett**. I think that depends on what the policies are. We have never had a recovery that wasn't led by the housing and construction sector, which provides jobs in the durables and consumable areas. But high interest rates makes a housing-led recovery unlikely. We have never had to come out of a recession with the propects for business investment looking as gloomy as it is.

I believe that even though total employment is going to have to be lower in steel and automobiles in the foreseeable future than it has been in the past, we can generate new jobs in high-wage, high-productivity industries in which we do have a comparative advantage. We have a major competitive advantage in the computer field, in all areas of education, and many services. There are many fields that I can't even go into describing which promise high-wage jobs, but those sectors are not going to emerge, and workers are not going to be able to move out of less competitive industries until such time as we get the economy growing again. We simply can't cope with a no-growth situation.

Chairman **Fauntroy**. I want to thank both of you for again having made us aware at a very personal level of the impact that these unemployment statistics have on the lives of the people. Thank you.

Our final witness is one who has spent the majority of his life and work in one of the States, which on the chart submitted to us by the Bureau of Labor Statistics, shows has been hardest hit by unemployment. He is Senator Ted Kulongoski, member, Oregon State Senate.

I am going to yield to Jim Weaver, while I go to the floor to deal with a District of Columbia matter.

I want to thank Senator Kulongoski for his support in the District of Columbia matters, and particularly inasmuch as it is highlighted by the fact that I must leave the hearing now and go to the floor, where I don't have a vote.

Mr. **Kulongoski**. You did that to me 2 years ago out in Portland.

Mr. **Weaver**. Senator Kulongoski has vast experience in the labor field, and he can contribute a great deal by telling us of the Oregon experience.

Mr. Patman, I appreciate your coming and listening to our distinguished State senator.

Mr. **Patman** [presiding]. Your district is well represented in the U.S. Congress. Glad to have you, Senator.

STATEMENT OF HON. TED KULONGOSKI, A SENATOR IN THE STATE OF OREGON LEGISLATURE

Mr. **Kulongoski**. I have a prepared statement, but having sat in your position for some time, because I have chaired both the House and Senate labor committees in the Oregon State Legislature, where I currently serve in the Oregon State Senate, I would like to paraphrase my testimony, and use the written testimony in its presentation to the committee for the record.

As was stated earlier, a number of the people, and I know Congressman Weaver knows this, because not only is he a Congressman from the State of Oregon, but he is also my Congressman, but he represents my district, and it is one of the districts that has been hit hardest by the current monetary policy of this administration.

The problems that I think, when you talk about unemployment and the academic answer and the people who compile statistics and the statisticians, it all means one thing to them, but to people in public service who are charged with somehow dealing in developing governmental programs that are basically going to try to alleviate some of the hardships that come into our structure. It is extremely difficult to deal with these issues and the issue of statistics, because they are people.

I would like to call to your attention the Pacific Northwest, particularly Oregon. One of the impacts of this particular recession and the high unemployment is that there are a number of communities in Oregon, communities of let's say between 1,500 and 4,000 people, where the sole employer has been a lumberman. Those particular mills, when they close, that means that the principal employer, and sometimes the only employer in those communities, has left.

We are now experiencing at this time the significant impact of plant closure on the citizens in these local communities.

There has just been a recent study by a Professor Weeks of the University of Oregon, in Eugene, which he has overlaid on a schematic diagram. Oregon has a monopoly on the sale of hard liquor in the State liquor stores. We can calculate very easily the increase in consuming in these communities of alcohol.

Professor Weeks has taken statistics from the sheriff, the district attorney's office, on prosecutions, and also taken the statistics from the women crisis centers, from the State Children Services Division, and put them on a diagram in which there is no dispute that in fact that unemployment has a much more traumatic impact on our society than just the question of a lost economic resource and a lost paycheck.

The truth is that the impacts on our society as far as the family, as far as crime, as far as the increased consumption of alcohol is all clearly documented by Professor Weeks' study, which shows that, in fact, that these particular communities where they have suffered a substantial mill closure, that the incidents of crime, of spousal and child abuse, of increased alcoholism, are considerably increasing in those communities.

Because of the recession and the high unemployment, the State of Oregon funds its general fund, which is the tax money used to fund State government, 75 percent of it comes from the personal income tax, and another 12 percent comes from a corporate excise tax structure in the State, and the remainder comes from the revenues from the liquor tax, cigarette tax, and a variety of other excise taxes that we have.

The problem with the State general fund is that it is an easy correlation to understand, is that when people don't work, they don't have paychecks, and if they do not have paychecks, they do not pay income taxes, and the State of Oregon, since January last year, has undergone two special sessions, and we will have to reduce our State budgets.

Just about 2 days ago, in Portland, as I laid out in my testimony, the fact is, the latest forecasts show, that next year there will be 21,500 fewer jobs and $400 million less personal income tax than was previously expected in the State of Oregon.

Employment is expected to decline until late in the year in Oregon, and 15,500 fewer jobs are now expected when the bottom finally is reached than had been anticipated earlier. Already this year, Oregon's Legislature has twice gone into special session to cut State budgets to the bone in the face of revenue shortfalls.

It now appears that we will again have to meet, as Oregon's State government, itself, becomes another victim of poverty.

It has had a tremendous impact on the social fabric of our State, but also on the ability of the State of Oregon to deliver essential State services, whether it is in the issue of higher education, human resources, and the concern that we in Oregon have for the preservation of our environment, because, as Congressman Weaver knows, tourism is a major element in our State's economy; and we all recognize if our parks and roads are not preserved, the tourism industry will dwindle.

But what I would like to leave you with is my strong belief on these two points: One, that in fact that the Congress, since the State is somewhat directly dependent on the economic policy developed by the Congress, that the Congress move very forcefully toward attempting to balance the Federal budget.

I know the President's economic package, the concerns he has expressed; I just happen to disagree with him. You cannot continue to appropriate the amount of money that this administration has toward the Defense budget and still expect that, in fact, somehow that the people of this country are going to have some economic stability in the future.

It is my strong belief again that, in fact, this country is strongest militarily when the people are at work, and we have a strong domestic economy.

The Federal Reserve Board, from one who is from the outside, outside of the major market area of Washington, D.C., and I am not always convinced that the body-politic is in Washington, D.C.—maybe the head is—but what happens, in our States, particularly those States west of the Mississippi have a profound impact on what happens to us nationally, and I think in a State in which we basically know that as long as there are 17-percent mortgage interest rates, that whether, in fact, the prime interest rates drop down to 12 or 12½ percent, the people in the Pacific Northwest are not going to go back to work until the mortgage interest rate actually declines, so that there is actually the opportunity for people to purchase a home so that the people in the Pacific Northwest are not going to have economic recovery.

I would hope that the Congress recognizes what I see as its responsibility to establish a unified fiscal and monetary policy for this country. We are basically operating off of a monetary policy which is very, very unfair and puts the States into the have-and-have-not positions. Those States that have defense contractors are a "have" and Oregon is a "have-not" State.

I hope to convince the Congress of the need to adopt that type of economic policy that takes into consideration both monetary and fiscal concerns and, at the same time, I would hope you would start reviewing the administration of the Federal Reserve Board and see if, in fact, in the best interests of this country that there is some accountability on the part of the Federal Reserve Board to the Congress.

I know why it was originally instituted years and years ago; but if they are going to be able to implement the economic policy of this country, that the elected representatives of this country should be able to give it some review and some control over that type of an economic policy; so I appreciate very much the opportunity to be here today, and I would hope that what I have had to say falls on responsive ears so that the concerns of the people of Oregon are understood and actually listened to.

Thank you, Mr. Chairman.

Mr. **Patman**. Thank you, Senator. You made an excellent witness, and by unanimous consent, we will incorporate your statement into the record.

[Mr. Kulongoski's prepared statement follows:]

Testimony of Honorable Ted Kulongoski
Member, Oregon State Senate,
Chairman, Oregon State Senate Committee on Labor

Before the Domestic Monetary Policy Subcommittee
House Banking Committee
United States House of Representatives

Thursday, August 12, 1982, 10:00 a.m.
Rayburn House Office Building, Room 2222

THE COSTS OF UNEMPLOYMENT FOR OREGON

Mr. Chairman, Members of the Committee:

My name is Ted Kulongoski, and my home is in Junction City, Oregon. I am an Oregon State Senator and Chairman of the Labor Committee of the Oregon Senate. I am also the Democratic nominee for Governor of Oregon.

I come before you today profoundly saddened, as I bring a message of sorrow and suffering from the almost 200,000 Oregon citizens who are today without jobs. I must tell you that in Oregon unemployment grows daily and that our economy has been damaged immeasureably by federal policies. High interest rates have brought home building to a halt. That halt has stilled the saws and the mills of the nation's number one wood products producing state. The recession that began in our forests and mill towns has now spread to every Oregon community, and every citizen of Oregon is today affected. It is a distinctly moving experience to walk down the main streets of some Oregon communities, to see the going out of business signs, and to realize that every fourth working man or women you meet is now without a job.

Oregon, far more than many other states in the Union, has borne the high costs of unemployment in this recession.

Some of those costs we can document as statistics:

- Earlier this year 130 of Oregon's 210 mills were closed or curtailed.

- Thirteen of our 36 counties have lost population, and over 10,000 workers who became unemployed Oregon are now collecting their unemployment benefits in other states as they seek work.

- Bankruptcy rates have doubled, business failures have also doubled, and home repossessions have tripled.

- As the depression and desperation of unemployment has increased, lawlessness and child abuse have increased.

And for Oregon the end of this recession is not even in sight.

In April when the national unemployment rate was 9.7 per cent, in Oregon it was 11.3 per cent. In May and June when 9.5 per cent of the American labor force was idle, 11.1 and 10.3 per cent of Oregonians stood in unemployment lines.

On Tuesday, Oregonians were confronted with more bad news.

The latest forecast shows that next year there will be 21,500 fewer jobs, and $400 million less personal income next year than was previously expected in my state. Employment is expected to decline until late in the year in Oregon and 15,500 fewer jobs are now expected when the bottom finally is reached than had been anticipated earlier. Already this year Oregon's Legislature has twice gone into special session to cut state budgets to the bone in the face of revenue shortfalls. It now appears that we will again have to meet, as Oregon's state government itself becomes another victim of poverty.

My state, which was once at the forefront of economic growth and development, has now assumed a new and unenviable role on the front lines of an economic policy that is wasting our human productive potential. For Oregonians, overwhelming federal deficits, high interest rates, and uncontrolled unemployment have combined to halt our economic growth, as Secretary Regan said, "dead in the water".

My purpose here today, however, is more than just to lay out the facts that are public record and direct your attention to the personal suffering of the people of my state.

It is rather, to bring you the message that Congress must take control of our fiscal and monetary policy. The Administration's economic direction that promises jobs and delivers pink slips, that promises housing and results in a 20 per cent prime interest rate, that promises to end inflation and now has inflation up to 13 per cent, and that promises to cut the fat out of goverment and instead removes its heart, cannot continue for Oregon or the nation.

On the fiscal side, Congress must act to restore the financial communities' confidence in our nation's ability to handle its affairs.

The key to restoring that confidence and bringing down interest rates is decreasing the enormity of the federal deficit. The federal government must stop pushing itself to the head of the line in the credit market.

One way to achieve that reduction is to restrain the growth of the military component of the budget. As a U.S. Marine Corps veteran I know the importance of sound national defense. But as a citizen I must object when my nation considers an MX missile proposal that would be the largest and most costly construction project in the history of the human race at a time when we already have the means to destroy ourselves and the world many times over. Common sense says that if we are to engage in such massive undertakings they should be to imporve the quality of life, not to increase the threat of holocaust.

Also key to decreasing the federal deficit is meaningful tax reform. Just last year Congress dramatically reduced revenues through a three year tax cut program. For 1983 taxes were lowered by $120 for a family earning less than $20,000 a year, hardly enough for them to take a vacation to our beautiful Oregon coast. But for families earning over $80,000 that tax break is $15,250; enough not only for vacation on the coast, but also for a new Cadillac to get them there. I strongly recommend that the third year of the tax cut program be eliminated in the name of both equity and fiscal responsibility.

In the area of national monetary policy, it is time for Congress to tie together our fiscal and monetary objectives. I am sure that this committee feels a real frustration in being able to do little more than review the actions of the Federal Reserve Board. While the independence of the FED has traditionally been valuable, since it was established our means of dealing with the economy have changed and directions must be coordinated by more than a handshake. Once effective measures have been taken to reduce the deficit and bring interest rates down to a reasonable level, steps must be taken to give Congress and the President authority to influence Federal Reserve Board policy. It will do little good to reduce interest rates if the FED remains unaccountable to the Congress and continues its policy of tightly controlling the money supply.

I recognize that the recommendations I have just made will not be easy to accomplish. But if Oregon and the nation are to return to economic health they must be followed. The cause and effect relationship between high budget deficits, tight money policies, and resulting unemployment is today the main feature of our economy. If that situation is allowed to continue, it will lead to further erosion in the growth of the Gross National Product, a further degeneration in the productivity of American workers and plants, and a continued loss in the strength of the dollar abroad and our standard of living at home.

I urge this Committee to report to the whole House that from Oregon and the other states of the Union, you heard a message that the costs of unemployment are far too great for our people to continue to bear. I urge you to commit to the hard struggle ahead to balance the budget, to make equitable tax reforms and to place Congress in a position to exercise authority over our nation's monetary policy.

I know that these efforts will be difficult, but they will be no more difficult than the problems encountered daily by our nation's unemployed.

Thank you very much.

Mr. **Patman**. If there are no questions, the committee stands adjourned, subject to the call of the Chair.

[Whereupon, at 12:20 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

[The following report of the Congressional Budget Office "Temporary Measures To Stimulate Employment: An Evaluation of Some Alternatives" was submitted for inclusion in the record:]

TEMPORARY MEASURES TO STIMULATE EMPLOYMENT:

An Evaluation of Some Alternatives

September 2, 1975

CONGRESS OF THE UNITED STATES
Congressional Budget Office
Washington, D.C.

PREFACE

This study, which compares various temporary measures to stimulate employment, was undertaken by the Congressional Budget Office at the request of the Senate Budget Committee. The Committee's request, transmitted in a letter from Chairman Edmund S. Muskie on April 30, 1975, read as follows:

> A major issue in this year's First Concurrent Resolution has been the design of programs which have a temporary, stimulative effect on employment, but which disappear as lower levels of unemployment are achieved. A substantial difference of view exists as to whether such programs can in fact be designed and effectively implemented.
>
> We will appreciate your undertaking a study of the experiences of our country and other nations in the design and implementation of such programs. We would appreciate a thorough examination of the design and economic implication of selected examples of actual and potential programs of this kind. We are very interested in whether such temporary programs can in fact be created and produce a useful effect and, at the same time, remain truly temporary. If such programs can be designed, what are the "triggers" which would actuate them and how can they be designed to "trigger out" effectively when their intended result has been achieved?

In responding to this request the Congressional Budget Office identified several different kinds of programs which might be used to stimulate employment: public works programs, public service employment, antirecession grants to state and local governments, and a variety of tax and other incentives designed to create jobs in the private sector. Various criteria for judging such programs were also identified--including cost per job, start-up and phase-out time, and impact on inflation--and an effort was made to rate each type of program against these criteria. The report does not attempt to judge whether such programs are needed; nor does it recommend one program over another. Indeed, the analysis indicates that no one program is strong on all criteria. Each has advantages and disadvantages. Consequently, programs discussed should not be viewed as substitutes for each other, but as possible elements in a mixed strategy to combat unemployment.

The report contains a discussion of "triggers" that might be used to start up and phase out such programs and an appendix assessing the experience of several industrial countries with temporary antirecession programs. A second, technical appendix explains the methods used to derive estimates of the impacts of different measures.

It should be noted that the impact estimates for these programs are based on extremely sketchy information. In general, ranges have been given rather than point estimates of particular effects. Work will continue in the Congressional Budget Office to refine these estimates and collect additional information about alternative ways to reduce unemployment.

The report was prepared under the direction of Nancy S. Barrett and George Iden with contributions from Alan Blinder, Steven Brooks, T. Wendell Butler, Anita Driscoll, Karl Gregory, and Richard Hobbie.

Alice M. Rivlin
Director

III

SUMMARY

Faced with unusually high unemployment and prospects for a long, slow recovery; with substantial inflation that is likely to mount if the energy situation worsens or food prices rise; and with a large federal deficit; policy makers are looking for ways to create jobs with minimal inflation and budgetary impact. This report discusses various measures to stimulate employment and what can be said about the costs, effectiveness and other features of each.

Four general types of programs are considered:

(1) Accelerated public works--stepping up spending for capital improvements, such as dams, roads, sewers, and repair and maintenance of public facililties;

(2) Public service employment--adding more workers to public payrolls (primarily state and local) on a temporary basis with the primary objective of creating more jobs;

(3) Antirecession grants to state and local governments--general purpose grants designed to help those governments maintain their services in the face of the falling revenues and rising costs attributable to recession;

(4) Measures to stimulate the private sector--general tax cuts and increases in government purchases; also special tax incentives designed to induce consumers to buy more durable goods or businesses to hire more workers.

IV

These programs are evaluated on the basis of several types of criteria:

1) Employment Impact

   --jobs created per billion dollars of program expenditure

   --jobs created per billion dollars of budget deficit

2) Timing

   --start-up time

   --phase-out flexibility

3) Other Effects

   --impact on inflation

   --distortion of the economy

   --value of output

   --targetability on specific groups or areas

The Senate Budget Committee in requesting this study asked "whether such temporary programs [to stimulate employment] can in fact be created and produce a useful effect, and at the same time, remain truly temporary." The evidence surveyed in this report indicates that the answer is "yes." Public policies can produce more jobs and can be phased out when no longer needed, but different types of policies differ greatly in cost, effectiveness, and other features.

Employment Impact

As may be seen in Summary Table 1, public service employment can be an effective means of creating jobs quickly at a relatively low cost per job. Under such programs most of the public money goes for wages and

SUMMARY TABLE 1.—Estimates of employment and budget impact of various programs costing $1 billion [1]

Type of program	Initial impact			12 months			24 months		
	Increase in jobs (thousands)	Reduction in unemployment rate	Net budget cost (millions)	Increase in jobs (thousands)	Reduction in unemployment rate	Net budget cost (millions)	Increase in jobs (thousands)	Reduction in unemployment rate	Net budget cost (millions)
Public service employment	80-125	0.07-0.11	$754-$615	90-145	0.08-0.13	$492-$425	90-150	0.08-0.13	$723-$530
Anti-recession aid to State and local governments	40-77	.04-.07	850-716	70-97	.07-.09	590-570	72-100	.07-.09	480-450
Accelerated public works	16-46	.02-.04	915-793	56-70	.06-.07	537-510	64-80	.07-.08	430-390
Tax cut [2]	8-15	.01-.02	980-960	26-35	.02-.03	740-720	30-40	.02-.03	663-637
Government purchases	20-50	.02-.04	948-870	40-70	.03-.05	600-590	60-80	.04-.05	475-425

[1] These estimates assume no monetary accommodation. If the money supply were increased to prevent interest rates from rising as a result of the expansionary fiscal measure, the job-creating effect would be higher and the net deficit cost lower. Accommodating monetary policy would increase the expansionary effect by 25 percent or more which, in turn, would reduce the budget cost by an average of about $125 million.

[2] The income tax cut is assumed to be one-third corporate and two-thirds personal. If the tax cut were entirely personal, the expansionary effect would be about 50 percent greater and the net budget cost about $175 million lower.

Source: See app. B.

relatively little for materials or equipment. If the new jobs are primarily for unskilled workers at low wage levels, the cost per job created may be as low as $8,000. A billion dollars of spending on public service employment would then have the initial effect of creating 125,000 new jobs, and spending by the new job holders would subsequently create additional jobs in the private sector. The total number of jobs created by this $1 billion spent might be as much as 150,000 by the end of two years. However, the number of new jobs created would be lower if: (1) the jobs were aimed at higher skilled people with higher wage rates or (2) if a substantial portion of the new public workers displaced regular government employees. On more pessimistic assumptions, $1 billion spent on public service employment might initially produce only about 80,000 jobs.

Antirecession aid to state and local governments also appears to have high potential for creating jobs, although the maximum number of jobs created per $1 billion dollars expended will be lower than for public service employment because: (1) less of the money will be used for wages and (2) the average state and local government employee is more skilled and more highly paid than one who might be hired by a public service program aimed at the low-skilled. Also the number of new jobs created by antirecession aid will fall if a substantial portion of the money supplied supports workers who would have been employed anyway.

An accelerated public works program can be a relatively costly way to create jobs if the money is concentrated on major construction projects where costly materials and equipment are needed and high skill levels are required. If maintenance and repair projects are emphasized, however, the number of jobs created per billion dollars will be substantially higher.

A general tax cut, while it may have many other advantages, ranks low in jobs created per billion dollars of revenue lost. This is because: (1) part of the money will be saved by taxpayers and (2) the part that is spent will simply add to general consumer demand. It will not be focused on products or services that require substantial amounts of unskilled labor. A general increase in government purchases is likely to have more impact on jobs than a general tax cut, but far less than a focused job-creating program such as public service employment.

Estimates of the impact on the unemployment rate of various programs are shown in Summary Table 1; also shown are estimates of the net budget cost of a billion dollars spent on each. The latter takes into account the budget savings that occurs when workers no longer collect unemployment compensation and begin to pay taxes and contribute to social security. If jobs are given to workers who would have been receiving unemployment compensation, the cost per job is reduced by an average of $3,250 per worker, in addition to the effect of increased tax payments. These off-setting savings will be relatively large for programs that have a high job impact, especially if the newly employed persons are experienced workers likely to be receiving unemployment compensation. The off-setting savings will be lower for low impact programs, especially if the new job holders are new entrants to the labor force or unskilled workers less likely to be covered by unemployment compensation.

Other budget savings reesult from higher corporate profits, tax receipts and higher personal tax payments from incomes of persons already employed. For most policies, the net budget cost after twenty-four months is less than half the initial program cost.

Timing

Programs also differ in the ease with which they can be started up and phased out as shown in Summary Table 2. Historical experience shows that public service employment programs may take a long time to get going if a new administrative mechanism has to be set up to channel money to state and local government projects. Where, as at present, an existing program can be expanded, time lags may be short. Anti-recession aid to state and local governments is also likely to take effect quickly, since the aid is for

SUMMARY TABLE 2.—Summary of the potential impacts of alternative measures to stimulate employment

	Employment impact per dollar expenditure	Startup time	Phaseout flexibility	Inflation impact	Value of output	Targetability
Income tax cut.	Relatively low, particularly in the short run.	Subject to lags in individuals' spending.	Potentially easy to terminate.	Same as any aggregate fiscal measure.	Entirely private sector.	None.
Increase in Government purchases.	Higher than tax cut; lower than special employment programs.	Potentially fast; subject to policy initiation lag.	May be hard to terminate, especially if useful output, services involved.	Same as any aggregate fiscal measure, depending on employees' skill mix.	Mostly public sector; 2d round effects on private sector.	Low.
Accelerated public works.	Potentially low if wages are high; greater job impact from low-wage projects.	Potentially long; but with wide variations depending on type of program.	Wide variation; appropriations easier to stop than some other Government programs, but large-scale projects may take long to complete.	Somewhat greater than other programs if workers highly skilled; lower if aimed at less skilled workers.	Mostly public sector; 2d round effects on private sector.	Can be directed at high-employment areas, construction trades.
Public service employment.	Relatively high if wages are low.	Potentially fast if existing programs expanded.	Relatively flexible if job tenure limited.	Low if aimed at unskilled workers and if wages are lower than private sector alternatives.	Low if emphasis is solely on job impact; if combined with training can produce useful skills.	Can be directed at most needy individuals.
Antirecession aid to State and local Governments.	Less than PSE if skill levels high; more than other Government purchases, public works.	Potentially fast; no new programs, only transfer of funds.	Potentially easy to terminate.	Moderate, depending on skill level of employees.	State and local government services.	Can be directed at Governments hit by recession.

81

general purposes and requires no new regulations or administrative structure. Public works programs, by contrast, may take a long time to get started, especially if several layers of government are involved, if new mechanisms have to be set up for planning and reviewing projects, or if large, complicated projects are chosen. The Accelerated Public Works program enacted in 1962 was extremely slow in getting started (see Chapter II). Much of the job impact came two or three years after the program was enacted and some money was not spent until after the country had returned to a full employment economy. Such slowness is not inevitable, however. The public works programs of the early 1970s geared up much faster. There is reason to think that jobs could be created quickly at present by a program emphasizing relatively small projects, especially those which have already been designed and are currently being held back for lack of funds.

Events in 1975 indicated that Congress can enact a tax cut quickly and that the Treasury can get refunds to taxpayers with little delay. The job impact of a tax cut may be slow, however, if taxpayers initially save the money or if firms are able to satisfy the new demand by reducing inventories rather than immediately increasing production.

Other Criteria

Policies that have ancillary objectives are less likely to have maximum employment impact, but rank higher on other criteria. Indeed, there is often a trade-off between the value of the output produced and the cost of the job created. Public works programs, for instance, are often thought to produce a more useful output than some other public service jobs, although they are naturally more expensive in terms of cost per job. Antirecession assistance to state and local governments may be used to provide valued services, such as education and health, that entail the use of skilled workers. Tax cuts have relatively low potential for creating jobs, but may be preferred because they introduce fewer distortions in the private economy--the money is spent to satisfy ordinary private wants, not to create new government programs or add to an unwieldly bureaucracy. Those who believe government is too big already prefer tax cuts to programs that impact on the public sector.

Inflation. Those programs that have high job-creating potential, such as public service employment, also carry the least risk of accelerating inflation, principally because they focus on unskilled workers, pay low wages, economize on the use of materials and equipment, and can be started quickly. Programs that require scarce skills or materials or take a long time to come into effect may add to inflationary pressures as the economy recovers from the recession.

Targetability. The current recession is highly uneven. Food and energy-producing areas have been enjoying relatively good times, while unemployment rates are extremely high in major industrial areas, especially those dependent on automobiles and construction. Moreover, unemployment rates among minorities and people with low skills and education--rates that are high even in prosperity--have moved to tragically high levels. Employment policies differ in the extent to which they can be targeted where most needed. Public works spending can be channeled to geographic areas of high unemployment and can be particularly helpful in relieving unemployment among construction workers. Major construction, however, tends to utilize skilled workers and may not benefit the disadvantaged. Public service employment is easier to target on the poor and low-skilled. Antirecession assistance to state and local governments is not susceptible to targeting by skill level, but can be channeled to governments especially hard-hit by the recession. General tax cuts and increases in government purchases cannot be targeted,although some more specific tax incentives discussed in Chapter V may be useful in reaching particular groups. Some types of government purchases can also be targeted at depressed regions and industries.

XI

Triggers

The use of a triggering formula to initiate and phase out temporary antirecession measures can reduce implementation lags at both ends. Local triggers determine the regional distribution of program funds.

Unemployment rates are most frequently used as triggers both because they are a good, noncontroversial indicator of the severity of the recession and because they are available monthly and on a regional basis. However, because unemployment is often a lagging indicator of changes in economic conditions during recovery, other earlier indicators such as changes in real Gross National Product (GNP) or new claims for unemployment insurance are sometimes suggested. GNP is only available quarterly, however, and not on a regional basis.

Recession-induced unemployment used as a trigger should be distinguished from structural unemployment, to the extent that the objective is to mount temporary programs, separate from other attacks on chronic regional unemployment. Some areas have relatively high unemployment, even at peaks in national economic activity and a temporary program cannot be expected to alleviate such structural problems. This would mean a local unemployment trigger should be related to increases in unemployment over and above the unemployment rate experienced by the area in times of national prosperity.

Foreign Experience

High unemployment is also being experienced abroad, brought about largely by measures to control the inflation that followed higher worldwide energy prices. Most of the industrial countries have adopted special antirecession measures.

There are many examples of temporary wage subsidies and special investment incentives to stimulate employment. France provides a subsidy to firms which reduce working hours without laying off workers; Sweden has a special countercyclical investment reserve fund; and many countries have some form of investment tax credit. Japan also provides subsidies to industries threatened with temporary layoffs.

Public employment programs abroad emphasize vocational training. Sweden's public service employment program, the largest of any of the countries, provided jobs for 2.5 percent of the labor force in the last recession, with more than half the participants involved in full-time training. Canada has an interesting Local Initiatives Program, which funds proposals from local governments and private, nonprofit organizations, creating employment and providing services planned by these groups. Many countries, including West Germany, Japan, and Sweden, also use some sort of an accelerated public works program as an antirecession measure.

Blank Page

COSTS OF UNEMPLOYMENT

TUESDAY, AUGUST 17, 1982

House of Representatives,
Subcommittee on Domestic Monetary Policy,
Committee on Banking, Finance and Urban Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 11:35 a.m. in room 2222, Rayburn House Office Building; Hon. Walter E. Fauntroy [chairman of the subcommittee] presiding.

Present: Representatives Fauntroy, Patman, and Weber.

Chairman **Fauntroy**. The subcommittee will come to order.

Today we hold the second day of hearings on what seems to be a forgotten issue: unemployment and how it affects the economy, our people, and the communities in which they live. Last week we heard testimony on the dimensions and cost of unemployment, which for the fourth straight month has afflicted more than 10 million Americans. As was pointed out last week, the July unemployment rate of 9.8 percent is the highest since 1941. Today we will hear about what this unemployment situation means for local communities which have been afflicted by even higher unemployment rates.

For the past 2 years we have had a monetary policy whose primary emphasis has been on reduction of inflation. While this resulted in a substantial reduction in inflation from a 16.5-percent annual rate of increase in the CPI in the first quarter of 1980 to a 3.2-percent annual rate of increase in the first quarter of this year, this progress has been accompanied by a substantial increase in unemployment over the same period, from a 6.3-percent rate in the first quarter of 1980 to the current level of 9.8 percent. We who must oversee the conduct of monetary policy must weigh the benefits of reduced inflation against the cost of increased unemployment that has resulted from an exclusively monetarist anti-inflation policy. To do that, we need to understand fully the characteristics and costs of our current levels of unemployment.

Our hearing last week provided us with insights into this question. However, it dealt with unemployment and its implications on the national level. As useful as that is, we also need to understand the impact of unemployment on the local level where people live, work, and lose their jobs. We need to understand that to really understand the cost of unemployment. Consequently, we have as witnesses today people from local governments who are in the front line in dealing with the effects of unemployment. Our witnesses will include Mayor Doug DeGood of Toledo; Councilman Norman Rice of the city council of Seattle, Wash.; and Patrick Colley, director of the mayor's agency for employment and development for Nashville, Tenn.

These witnesses come from very different parts of the country, all of which are experiencing unemployment rates above the national average.

Gentlemen, I want to welcome you to our hearing. We look forward to hearing your testimony.

[Chairman Fauntroy's opening statement follows:]

OPENING STATEMENT OF THE HONORABLE WALTER E. FAUNTROY
CHAIRMAN, SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Hearings on the Costs of Unemployment and the Implications for Monetary Policy

Tuesday, August 17, 1982 -- 10:00 A. M.
2222 Rayburn House Office Building -- Washington, D.C.

****

The Subcommittee will come to order.

Today, we hold our second day of hearings on what seems to be a forgotten issue, unemployment and how it affects the economy, our people and the communities in which they live. Last week, we heard testimony about the dimensions and costs of unemployment, which for the fourth straight month has afflicted more than 10 million Americans. As was pointed out last week, the July unemployment rate of 9.8% is the highest since 1941. Today, we will hear about what this unemployment situation means for local communities which have been afflicted with even higher unemployment rates.

For the past two years we have had a monetary policy whose primary emphasis has been on the reduction of inflation. While this resulted in a substantial reduction in inflation, from a 16.5% annual rate of increase in the CPI in the first quarter of 1980 to a 3.2% annual rate of increase in the first quarter of this year, this progress has been accompanied by a substantial increase in unemployment over the same period, from a 6.3% rate in the first quarter of 1980 to the current level of 9.8%. We who must oversee the conduct of monetary policy must weigh the benefits of reduced inflation against the costs of increased unemployment that has resulted from an exclusively monetarist anti-inflation policy. To do that, we need to understand fully the characteristics and costs of our current levels of unemployment.

Our hearing last week provided us with insights into this question. However, it dealt with unemployment and its implications on the national level. Useful as that is, we also need to understand the impact of unemployment on the local level, where people live and work -- and lose jobs -- to really understand the costs of unemployment. Consequently, we have as witnesses today people from local governments who are in the front lines in dealing with the effects of unemployment. Our witnesses include Mayor Doug DeGood of Toledo, Ohio, Councilman Norman Rice of the City Council of Seattle, Washington, and Patrick Colley, Director of the Mayor's Agency for Employment and Development for Nashville, Tennessee. These witnesses come from very different parts of the country, all of which are experiencing unemployment rates above the national average. Gentlemen, welcome. We look forward to hearing your testimony.

Chairman **Fauntroy**. Before we begin, I would like to yield to my good friend and Member from the State of Ohio, Mr. Weber, for any opening remarks which he may wish to make.

Mr. **Weber**. Thank you very much, Mr. Chairman. I want to express appreciation along with the comments of the chairman for the witnesses we have today, especially the mayor of Toledo, which is my home.

Before I get into the introduction of Mayor DeGood from Toledo, I would like to comment briefly. I think that as we think about inflation, we have to be very careful that we do not link inflation with unemployment or winning the battle against inflation with losing the battle with unemployment.

I think there may be some connection with monetarist policy, but I think at all times we must remember we must continue to win the battle against inflation because inflation can be one of the great inhibitors of employment.

As we see interest costs go up as a result of the inflation factor, businesses are not able to sell their goods and are not able to plow back the money that is necessary to invest into their companies and into their plants and factories in order to remain competitive.

I have good news of another kind which I am not sure that the mayor is aware of, because of the lack of time. We received word today that $300,000 is being released from the Department of Labor for the CETA program in the Toledo area for summer youth job training, remedial education, work training, occupational training, and summer jobs. And any funds not expended this summer by the Toledo consortium can be carried over until next year.

Mr. Chairman, Mayor DeGood has represented our city both as a councilman and as mayor, I believe, for at least three or four terms. He has been heavily connected in various national associations of cities and mayors. He has taken his time to come to Washington on numerous occasions to give us the benefit of his expertise and experience in matters involving urban policy both before this committee and other committees both on this side and also on the Senate side. It is my pleasure at this time to welcome him to these hearings.

Chairman **Fauntroy**. Thank you so much.

Mayor DeGood, it is a real pleasure to welcome you. We have your testimony as prepared, and you may proceed now in whatever manner you choose.

STATEMENT OF HON. DOUG DeGOOD, MAYOR OF THE CITY OF TOLEDO, OHIO

Mr. **DeGood**. Thank you, Mr. Chairman. I would like to commend Congressman Weber for that introduction. He read it just the way I wrote it, and I appreciate his efforts in that regard. [Laughter.]

Again I would like to thank you for the opportunity to be here today to discuss the impact of unemployment on the city of Toledo. First of all, I think it is important to reflect for a moment on the context in which cities find themselves battling the ravages of unemployment.

In 1933, when Franklin Roosevelt became President, and for the first time defined combating unemployment as a Federal responsibility, the Federal Government collected only 33 cents out of every tax dollar. However, we now find ourselves in a completely reversed situation: The Federal Government collects 67 cents out of every tax dollar and the State and local governments collect 33 cents.

It was a Federal responsibility in the 1930's to deal with unemployment when the Federal Government, in a relative sense, had far fewer resources than it has today. And it became formal national policy for the Federal Government to deal with unemployment after World War II with the passage of the Full Employment Act of 1946. No one can reasonably conclude that the Federal Government can do anything but take the lead role in resolving the staggering unemployment problem confronting America today. As my testimony shall make clear, the cities of this country simply do not have anything approaching sufficient resources to deal with a problem of this magnitude.

The city of Toledo and its 356,000 residents are located in the heart of America's industrial belt which runs from Pittsburgh to Minneapolis. The brief synopsis of statistical data which I am about to present should make evident to everyone that local resources are insufficient in dealing with the problem of unemployment.

In June 1979 unemployment in Toledo was 7 percent. In June 1982 it had risen to 12.1 percent. And that figure represents some 26,000 people out of work. In the same period of time unemployment in the construction industry has risen from 15 percent to 30 percent. And I hate to think what unemployment in the construction industry would be if it were not for federally induced projects.

Between mid-1979 and today, 45 cents out of every construction dollar spent in Toledo is a consequence of urban development action grant, EDA grant, or UMTA funds. Had the $280 million of construction brought about by Federal funds not occurred, I am sure unemployment in our construction industry would exceed 50 percent.

As it relates to the public sector the impacts of unemployment have been no less devastating. Between 1978 and 1981 municipal income grew 14 percent in absolute dollars, while the Consumer Price Index rose 48.3 percent. As a consequence of this, the city of Toledo had to reduce its municipal work force by 40 percent. So at the very time that people are more and more in need of municipal services, the city government is less and less able to provide them.

To alleviate this condition somewhat, in June of this year the voters of Toledo increased their municipal income tax by 50 percent. However, this provided sufficient funding only to begin to restore adequate service levels in public health, refuse collection, park maintenance, police and fire.

There is no local funding available for human resource services and for coping with the problems attendant to high unemployment. The problem is further exacerbated because in 1978 Toledo had within its corporate limits 74 percent of the tax base in Lucas County, the county in which the city is located, while by 1980 Toledo possessed only 66 percent of the tax base in Lucas County.

This quite simply means that as upper-middle-class whites continue to flee the core city and take with them a measurable percentage of the tax base that those persons most in need of governmental services continue to live in a core city less and less able to provide traditional municipal services, not to mention coping with unemployment.

In addition to the problems which have befallen my city locally, the Federal Government has reduced markedly the one program which directly addressed the needs of the unemployed; namely, CETA. Mr. Chairman, I fully understand that CETA has not been a universally popular program here on the Hill, but the reality in Toledo's instance is that while between 1979 and 1982 our funding was reduced 60 percent, our numbers of beneficiaries was cut 30 percent. I believe this to be a clear indication of good use of Federal funds at the local level.

However, much as it may be an example in public management efficiency, it is not acceptable to be reducing the number of people served when unemployment is on the rise.

Mr. Chairman, I hope that this brief detailing of Toledo's plight demonstrates the imperative need for Federal action to combat unemployment. Specifically, I suggest the greatest benefit to America's hard-pressed cities would be the marked and immediate reduction in the interest rate so that workers in America's basic industries such as steel, glass, rubber, automobiles, and construction can once again engage in profitable commerce.

Second, Mr. Chairman, in light of the fact that OMB's own analysis shows that grants to States and local governments comprise only 14 percent of the Federal budget but yet have borne 66 percent of the Federal cuts, that any additional cuts not come at the expense of America's cities. Thank you, sir.

Chairman FAUNTROY. I certainly want to thank you, Mayor DeGood, for a cogent and persuasive presentation, particularly as it relates to the Federal role in combating unemployment and dealing with the problems which you have clearly outlined as now being almost exclusively the responsibility of State and local governments.

We will move on to our next witness, who brings us the perspective of a legislator in one of our communities, the distinguished Mr. Norman Rice, city councilman of the city of Seattle, Wash. Mr. Rice, we are likewise extremely pleased to have you share with us the impact of unemployment as it is felt in your local community. We have your very excellent testimony in writing before us. You may proceed in whatever manner you choose, as well.

STATEMENT OF HON. NORMAN B. RICE, COUNCILMAN, CITY OF SEATTLE, WASH.

Mr. RICE. Thank you, Mr. Chairman. This is the first time I ever had to follow someone and say, "Me, too," and not be happy about it. But when we talk about Seattle, I would like to preface my remarks by pointing out that Seattle is often considered the most livable city in the United States, and I know that each member of this subcommittee has a city in their district that also claims that title. The reason I mention Seattle's "most livable" claim is I know what high unemployment is doing to my city, and for other cities without this initial high-livability advantage I am sure conditions are much bleaker. Nonetheless, the unemployment in Seattle, and other cities throughout Washington State, is taking its toll in every facet of life in my community.

On July 31 the Washington State Department of Employment Security released the June 1982 unemployment rate. It is at 12.4 percent. It was the highest June figure on record, and the June level is higher than May's 12.1 percent. Our unemployment rate continues to rank the State as having the third highest level in the country. The unemployment rate now stands at 11.1 percent for our SMSA. Other major cities across the State have rates ranging from a low of 8.8 percent in Bremerton, which feels the boost of defense spending for Navy yard and Trident submarine bases, to a high of 16.8 percent for the Tri-Cities area. This committee is aware of the housing slump, and for many counties in Washington this translates into unemployment rates of 17.7 percent, and unofficial rates pushing 40 percent. Of the 39 counties in Washington State, fewer than 10 have unemployment rates in less than double digits.

Mr. Chairman, the increase in the State's unemployment rate has been dramatic. In 12 months the State's jobless rate increased more than 40 percent, up from the June 1981 rate of 8.8 percent to the June 1982 rate of 12.4 percent. In Washington State we have a serious unemployment problem which is undermining both our financial and human resources. It has thrown our State government into disarray. Our local governments are working hard to fend off similar problems. Public institutions are suffering major shocks almost daily. Yet it seems incidental when compared to the burdens now placed upon our citizens.

In preparing my remarks for the subcommittee, I discovered that most statistical indices fail to convey or are not gathered in a way that truly reflect the hardship experienced by those who are out of work. As chairman of the city council's budget and finance committees, I have the dubious honor of tracking the cold numbers on Seattle's finances. In Seattle we have a strong mayor and strong council form of government. While the mayor proposes the city's annual budget, the council does much more than merely adopt the budget proposed by the mayor. Often we make substantial changes in proposed budgets. But with seriously declining revenues and increasing need for services, particularly due to the dramatic Federal reductions, our budget process is much like yours: plagued by uncertainty. Our budget is on a calendar year to be adopted each year.

During the late 1970's we were experiencing a local boom. Our unemployment was at 5.5 percent, and the city's business tax base was expanding. Now in 1982 our unemployment rate exceeds 11 percent, and our business tax base is declining by about 6 percent in real terms over last year's level. Based on the historical relationship between the local unemployment rate and overall business activity, the current high unemployment will cost the city of Seattle about $8 million in foregone sales and business tax revenues in 1982. This is more than 4 percent of the city's 1982 operating budget. In simpler terms, each 1-percent rise in unemployment costs the city $1.5 million in foregone business and sales tax revenues. While the city of Seattle's 1982 budget process was grueling, it did not compare to that of the State, for the State has gone into its 1981-83 budget and the State legislature has been meeting almost regularly since that budget began in July 1981, cutting the budget and at the same time increasing taxes in cigaret taxes, gasoline taxes, and sales taxes.

Thus we are running into problems at the State level. I do not want to leave you the impression that we are incapable of helping ourselves, since it is not true. It is simply that the need exceeds our ability to prevent permanent damage to our State and community. We can no longer look at a Federal Government that does not want to help in the area of unemployment. I understand the problem you are faced with today. But we need unemployment insurance, and we need to help those people who are out of work. Most of the support systems for those individuals have been taken away, from food stamps, from even the food banks and emergency shelter areas.

We no longer have the capacity with a shrinking revenue base to help those who are unemployed.

And we need to understand that the unemployment base is growing and will continue to grow for at least the next 2 years, especially when you talk about our timber industry, and our aerospace industry which have suffered declines that will take some time to recover from.

We cannot really see in the long term that these things are going to turn around. As you know, with the Boeing Co., the Export-Import Bank and what has happened there, the Safe Harbor Leasing does not bode well for Boeing. Boeing hires almost 10 percent of the work force in the State of Washington. So clearly, when those people are out of work, they come to Seattle. Seattle can no longer assist the unemployed if it does not have the corresponding programs to help out.

I think that as major corporate and special industry benefits are enacted and preserved, cities must confront growing service demands with an ever-shrinking public resource base. The inconsistency is one in which industry, while receiving economic relief, does not reemploy.

Throughout the past 12 months, the Nation has turned its sole attention to Federal budget deficits. Deficits are the symptoms of an economic illness. The unemployed are the victims. We should consider such remedial measures as an infrastructure and energy public works program.

How much longer can we continue to ignore the needs of our growing unemployed? Mr. Chairman, your subcommittee's hearing today is an important step in restoring some balance in the national debate on the economy in adopting a course to steer the Nation out of this recession. But current and future needs of the unemployed must be addressed by Congress.

I thank you for this opportunity to appear before the subcommittee.

[The prepared statement of Mr. Rice follows:]

STATEMENT OF

COUNCILMAN NORMAN B. RICE

SEATTLE, WASHINGTON

ON

THE EFFECTS OF UNEMPLOYMENT ON SEATTLE

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

COMMITTEE ON BANKING, FINANCE & URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

August 17, 1982

I am Norman Rice, City Councilman from Seattle, Washington. I am pleased to have this opportunity to testify before the Subcommittee on the effects of unemployment on my city.

From the outset I would like to preface my remarks by pointing out that Seattle is often considered the most liveable city in the United States. I know that each Member has a city in their district that also claims this title. The reason why I mention Seattle's most liveable claim is that I know what high unemployment is doing to my city. For other cities without this initial high liveability advantage, I am sure that conditions are much bleaker. Nonetheless, the unemployment situation in Seattle, and other cities throughout Washington State, is taking its toll in every facet of life in my community.

Seattle-Washington State Governmental Impacts

On July 31st, the Washington State Department of Employment Security released the June 1982 unemployment rate; at 12.4 percent, it was the highest June figure on record. The June level is higher than May's 12.1 percent rate, but lower than the 13 percent figure reached earlier this spring. Our unemployment rate continues to rank the state as having the third highest level in the country. In Seattle's SMSA (Seattle-Everett), the unemployment rate now stands at 11.1 percent. Other major cities across the state have rates ranging from a low of 8.8 percent in Bremerton, which feels the boost of defense spending for the naval yard and Trident submarine base, to a high of 16.8 percent for the Tri Cities area. This Committee is well aware of the housing slump. For many counties this translates into unemployment rates of 17.7 percent and unofficial rates pushing 40 percent. Of the 39 counties in Washington State, fewer than 10 have unemployment rates in less than double digits.

Mr. Chairman, the increase in the State's unemployment rate has been dramatic. In 12 months, the State's jobless rate increased more than 40 percent, up from the June 1981 rate of 8.8 percent to the June 1982 rate of 12.4 percent.

In Washington State, we have a serious unemployment problem which is undermining both our financial and human resources. It has thrown our State government into disarray; our local governments are working hard to fend off similar problems. Public institutions are suffering major shocks almost daily. Yet, it seems incidental when compared to the burdens now placed upon our citizens. In preparing my remarks for the Committee, I discovered that most statistical indices fail to convey or are not gathered in a way that truly reflect the hardship experienced by those who are out of work.

As Chairman of the City Council's Budget and Finance Committees, I have the dubious honor of tracking the cold numbers on Seattle's finances. In Seattle, we have a strong mayor and strong council form of government. While the Mayor proposes the City's annual budget, the Council does much more than merely adopt the budget proposed by the Mayor. Often, we make substantial changes in proposed budgets. With seriously declining revenues and increasing need for services, particularly due to dramatic federal reductions, our budget process has become much like yours -- plagued by uncertainty. Our budget is on a calendar year to be adopted each year by December 1st. And, it must be balanced. Obviously the downturn in the national and state economies seriously affects Seattle. During the late 1970s, we were experiencing a local boom; our unemployment was at 5½ percent and the City's business tax base was expanding, in real terms, by 8 percent annually. Now in 1982 our unemployment rate exceeds 11 percent and our business tax base is declining by about 6 percent, in real terms, over last year's level. Based on the historical relationship between the local unemployment rate and overall business activity, the current high unemployment will cost the City of Seattle about $8 million in foregone sales and business tax revenues in 1982; this is more than 4 percent of the City's 1982 operating budget. In simpler terms, each 1 percent rise in unemployment costs the City $1.5 million in foregone business and sales tax revenues.

While the City of Seattle's 1982 budget process was grueling for all involved, in retrospect it was less painful and certainly more decisive than what has been occurring in our State Legislature on the Washington State budget. Currently, the State is in the 1981-83 biennial budget which runs through June 30th, 1983. Under normal conditions, this biennial budget would have been adopted in June of 1981 and adjusted in early 1982 via a supplemental budget. In early 1983, minor adjustments would be made. However, given the serious condition of the national and state economies, this particular biennial budget has been in constant turmoil:

- it was adopted in June of 1981, at the $12 billion level;
- a special state legislative session was called in November 1981 because of the continuing decline of state revenues: the budget was reduced by $300 million and a 1 cent sales tax was added;
- then during the regular state legislative session in January, 1982, it was reduced by an additional $151 million and the sales tax was broadened to include food;
- another special legislative session in June of this year resulted in even further cuts of $90.6 million and a 3 percent surcharge on most existing state taxes was added and a state lottery was adopted; and
- finally, the Governor may have to recall the Legislature to increase taxes and reduce budgets again prior to January.

Of course, when state and local governments increase taxes and lay off staff, we are only adding to the burdens of our citizens and of our governments. Laying off government workers is costly. Services they provide are badly needed in an economy with double digit unemployment. You can count on the fact that there aren't jobs for all of these people, so now their survival costs are assumed in funding levels for food stamps, welfare, Unemployment Insurance, food banks, etc.

In Washington State, I understand there is increasing concern about the stability of the unemployment insurance trust fund. In May the State Unemployment Insurance Claims Load reached 113,130, up from the May 1981 level of 79,577, a 42 percent increase. Following this trend $43.3 million was paid in State unemployment insurance benefits during this May, a level again well above the previous year for State UI Benefits paid. The continued increase in benefit payments has brought the UI Trust Fund balance to $311.8 million. If benefit costs increase and the economy does not improve by early next year the fund may well be exhausted during the last quarter of 1983.

Recent trends in the State's Employment Security workload indicates that continued claims are still on the rise. The chilling factor in looking at these is that there seems to be no end in sight. The unfortunate side of these figures for claims and unemployment is that they represent individuals and families experiencing sustained and long-term periods of unemployment with, at best, limited prospects for an improvement in their situation.

Sadly, there is so little the state and local governments can offer to mitigate the impacts of unemployment. We cannot change the economy, but even worse we cannot even provide interim remedial measures. Our food banks and shelters are flooded with people seeking assistance; often, they are having to turn some away because they do not have the resources needed to serve all the needy. Ironically, federal programs to provide some relief for these people have been cut or eliminated;

o The elimination of the Public Service Employment (PSE) program eliminated 500 positions in Seattle, particularly in the non-profit sector. PSE positions not only provided important job opportunities for qualified and unemployed citizens, but they supported services many of which are appropriate to the needs of the jobless.

- In the health area, the unemployed are turning in increasing numbers to Seattle's community health clinic system. Direct federal funding over a broad range of programs has been substantially curtailed, thereby reducing the primary care services available to the community. Sadly, the unemployed worker now joins others, such as refugees and former Medicaid recipients, in line for much needed primary care at a time when present service levels cannot be maintained.
- At the State level, eligibility and program changes for AFDC and Food Stamps now make it more difficult for individuals to access public assistance. Here the affected groups are those individuals, particularly women, in need of employment who cannot find opportunities in this economic climate or individuals whose unemployment benefits have expired.

I now serve on the board of our local CETA (Comprehensive Employment and Training Act) program. I have seen firsthand what the elimination of Public Service Employment (PSE) meant to the private nonprofit organizations who used these people to provide basic services to our residents. Many of these organizations did not have budgets to cover the costs of employees provided by CETA, because they were already facing substantial federal cuts under federal programs. We have experienced a 55.9 percent reduction in funds for youth and the 42.8 percent reduction in Title II-B job training funds from FY 1980 to FY 1982, right at the time the need for such programs and the number of people eligible for them was increasing dramatically, due to high unemployment. Overall, while unemployment rates have risen 54 percent since 1980 in Seattle and King County, the funds available for serving CETA participants have been reduced by 73 percent.

Business Difficulties

Our state and local revenues are declining because our businesses are in trouble. The severity of the current recession is evident in the number of business failures that have occurred in the State of Washington. For the seven month period ending in July 1981, 492 failures occurred representing $76 million in liabilities.

Two of our biggest industries are facing very hard times: wood products and airplane production. The continuing national housing recession affects the finance, insurance and real estate sectors as well as the forest and wood products sectors. As long as the housing recession continues, we will continue to have 30 and 40 percent unofficial unemployment rates in our counties dependent upon the forest products industry.

Of particular concern to Seattle is the economic health of the Boeing Company. While we are much more diversified than we were in the early 1970s when we experienced the "Boeing Bust," Boeing and related aircraft manufacturing industries still employ over 10 percent of the Seattle-Everett SMSA non-agricultural workers and an even higher concentration of Seattle residents work for Boeing. Our local economy has yet to feel the full effects of the shocks resulting from cancellation of Boeing orders due to high interest rates, reductions in the Export-Import bank and financial problems in the airline industry. Boeing and the airlines industry represent a classic cyclical downturn industry. Boeing expects to lay off at least 10,000 workers this year due to this severe recession in the airline industry. In addition to reduced product demand and increased competition, the Boeing Company has experienced difficulties with the Export-Import Bank. During 1981 Boeing customers received $2.6 billion in direct bank loans from the Ex-Im Bank. This was 43 percent of all loans granted. Only $91 million has been loaned by the bank to Boeing customers so far this year. The Administration has asked for a limit of $3.8 billion in lending authority for the bank in the 1983 fiscal year compared to $4.4 billion in 1982 and $5.4 billion in 1981. If adjusted for inflation, the reduction would be even greater.

An additional factor that may affect the sales of airplanes is the Safe Harbor Leasing, part of last year's change in the tax structure for business. As you know, this procedure enables corporations losing money to sell their tax losses to other corporations. In the case of airlines buying capital equipment, this generates funding to help buy fuel efficient, new generation transports, which in turn are needed to lower operating costs. A number of airlines have indicated they plan to cut orders if the Safe Harbor Leasing provisions are eliminated.

Table 1 (Appendix) paints a dismal picture of losses in industry employment in the Seattle-Everett SMSA between March of 1981 and March of 1982. Unemployment rates began rising in 1979, but the period depicted in the table (March 1981-March 1982) emphasizes the increasing severity of the recession's effects. On a percentage basis, workers in lumber and wood products, primary metal industries, other transportation equipment, paper and allied products and construction are particularly hard hit by declines in employment. In terms of absolute numbers, the greatest losses have been in aircraft, construction, wholesale and retail trade, services and government, or in other words, those areas that could employ the most individuals.

Human Costs

The fact that revenues are down at the state and local levels and that businesses are cutting back and unemployment rates are higher than ever is just a manifestation of the all too obvious fact that a lot of people in Seattle are hurting.

o Unemployment

As can be seen from Table 2 (Appendix), groups over-represented among the unemployed for 15 weeks or more, given their representation in the general population, include females, youth (to an extreme degree) and persons 55 and over.

What are the unemployment rates for these groups and how do they compare with those experienced during the severe "Boeing bust" recession experienced here locally in 1970?

Table 3 (Appendix) shows Seattle-Everett SMSA unemployment rates by age, sex and race for 1970 and 1982. Again, rates tend to be higher for females, youth, minorities and persons over 55. When these characteristics intersect in one group of individuals, their unemployment rates are higher. One interesting fact concerning the non-white unemployment rate is that it is actually higher in this recession than it was in 1970, even though total unemployment is not as high. Table 3 was made up early in 1982, and projected average annual unemployment for the SMSA at 6.7 percent. Table 4 (Appendix) shows updated estimates based on the current projections of a 9.7 percent total unemployment rate. All rates are naturally higher, with the rate for non-white youth 16-19 at a shockingly high 39.3 percent. This level of minority youth unemployment provides "social dynamite," the effects of which were so well documented during the decade of the '70s.

As Table 4 (Appendix) shows, annual average unemployment rates for King County peaked at 9.3 percent during the national recession in 1975 and then fell to 5.3 percent by 1979. Since then the rate has risen steadily to a projected 9.7 percent annual average for 1982. While a direct correlation between unemployment and other social conditions is hard to define, it is interesting to note that from 1975 to 1979, as the unemployment rate fell by 18.5 percent, the suicide rate fell by 16.6 percent and alcohol-related driving fatalities as a percent of total fell by 11.7 percent. In contrast from 1979 to 1981 as average annual unemployment rates rose by 50.9 percent, the suicide rate rose by 8.9 percent, alcohol-related driving fatalities as a percent of total rose by 20.1 percent and mental illness interventions rose by 122.2 percent as compared to a 33.3 percent rise in the 1975-1979 period.

These results are consistent with a study by Robert Mier of 51 major cities in which he found unemployment significantly related to overcrowding, out-of-wedlock births, the suicide rate and the homicide rate after the effects of other important variables were factored out.[1]

---

[1] Mier, Robert. Exclusion and Inadequacy Indexes: Labor Market Indicators for Social Planning, Graduate Field of City and Regional Planning, Ithaca, N.Y., August, 1975.

A Wall Street Journal article by Michael Woldholz on August 6, 1982, cited a study by Ralph A. Catalono, an economist at the University of California at Irvine, which gives evidence that "Losing one's job, being unable to find work and being out of work for more than six months are three of fifteen economic events that make people two to two and one half times more likely to exhibit a severe physical or psychological disorder." The Deputy Director of Wisconsin's Bureau of Children links rising unemployment rates to incidences of child abuse. For counties with high increases in joblessness, there were corresponding increases in child abuse.

o Crime

The incidence of crime in Seattle has not been measurably affected by rising unemployment. As a matter of fact, the Crime Index has decreased by 4 percent during the first six months of 1982. In part, this may be because people have anticipated increased criminal activities because of rising unemployment and they have taken preventive measures. They are actively engaging in self help programs such as "block watch" and "business watch" and are volunteering to help the Seattle Police Department on such programs as senior safety, victim assistance and neighborhood crime prevention.

The one area of violent crime in Seattle that has steadily increased for the past ten years has been assault. Aggravated assault has increased from a low of 880 cases in 1972 to a predicted high of 2,857 cases in 1982, a ten year increase of 225 percent. Even more significant is the increase in non-aggravated assaults which reflect both home and street disruption and disorder. During the first six months of 1982, non-aggravated assaults have increased by 28 percent (+508 offenses) with many of those cases involving domestic violence and random, unprovoked street assaults. The present accelerated increase in minor assaults could be attributable, in part, to decreased community based mental health, drug and alcohol counseling centers which have been eliminated or reduced because of federal and state cuts.

While it is premature to measure the impact of the drastic cuts in the State Department of Social and Health Services programs due to federal and state reductions, it is logical to assume that the recent reductions in programs and facilities will affect community crime. The early release of both juvenile and adult serious offenders into an economy where employment is at an all time low and social services have been pared to minimum emergency services could precipitate criminal activity, particularly property crimes.

σ Bankruptcies

As the economy worsens and unemployment rises,more people are facing unemployment for a sustained period. This results in severe financial and personal difficulties. Table 5 (Appendix) illustrates the number of applications filed for personal bankruptcy, both Chapter 7 and 13,* for 1979-1982. Total 1981 bankruptcies show a 68 percent increase over 1979, with Chapter 7 bankruptcies showing a 66 percent increase and Chapter 13 bankruptcies showing a 57 percent increase. (These figures are for the seven county area surrounding Seattle.) In the same vein the Federal Home Loan Bank figures on delinquency rates for the State of Washington reveal a six fold increase from June of 1978 to June of 1982 in delinquent home loans. For the average person the largest investment they have is their home and it is usually the last thing they give up. A six fold increase in delinquency rates must be viewed with alarm. People who are losing their major investment are in dire straits.

---

*Chapter 7 bankruptcies involve total liquidation of personal assets. Chapter 13 bankruptcies involve reorganization of personal finances and repayment of debts over 3 years.

o Food Stamps

Still further evidence of the increasing seriousness of unemployment in Seattle is seen in the participation in the food stamp program. Such participation in Seattle has increased 61 percent since 1978 while there has been only a 25 percent increase in expenditures, resulting in a 22 percent reduction in the average allotment. Unfortunately,the price of food has not declined since 1978 so we are giving people less when it costs more.

o Food Banks

In 1981 Northwest Second Harvest, a major distributor and fund raiser for food banks, served 39,000 people a month. So far this year they are serving 101,000 people a month, a 259 percent increase in one year. Five of the largest food banks in Seattle/King County have had to increase their levels of service 50 to 75 percent just since January of this year. Increasing numbers of the food bank recipients are people who are unemployed and have exhausted their unemployment benefits; many of these are two parent families with no alternative resources. Especially disheartening is the fact that 70 percent of the people served by the food banks are children and elderly. What used to be "supplemental" food at the end of the month is now emergency food requested twice, three and often four times a month. Women on public assistance with young children, disabled single persons on general assistance and SSI, elderly persons on social security and two-parent families on minimal incomes, wait hours in food bank lines for a bag of food that might last a day.

o Emergency Shelter

In the first three months of 1982 the City's emergency shelters serviced 1,500 people a night. While no specific figures are available for 1981 United Way planners indicate this is an increase of even more significant is the fact that a different clientele is being served. In addition to the traditional skid row population and shelters are now serving able bodied people, even families, who have never used such a facility before but who have exhausted all of their remaining resources and cannot find any work. So they are turning to the shelters as a last resort. Eleven emergency shelters surveyed this June indicated that at least 1500 persons are being turned away each month because there is no space for them. Their estimate is that the real need for shelter is double what is available.

The City's Citizen Service Bureau reports that its referrals to non-City agencies for emergency food and housing are up 67 percent over 1981 referrals. The Salvation Army is also reporting a dramatic increase in demand. January through June of 1981 they served 5469 families and 14,643 individuals; for the same period in 1982 they have served 7070 families (29 percent increase) and 18,619 individuals (27 percent increase) and they have had to turn away 1800 families since March.

o Health

There is an increase in the demand for mental health services but with reduced funding fewer are being served. In the alcohol and substance abuse area we are seeing increased demand for street services and detoxification services. The City's community clinics are seeing an increased need for health and dental services. In the first three months of this year 2,230 people received medical care and 431 received dental care.

In the area of maternity care, clinics cannot keep up with the demand. As people become unemployed and lose their medical insurance, there is a growing demand for maternity care which is an expensive service ($2,500 - 3,000). Right now these clinics are booked through March of 1983 and in the first five months of this year over 350 calls for maternity care were received from low income people; some had to be referred to other sources because the City did not have the ability to meet these rising needs. This is especially true of our Indochinese refugee population which has a high birth rate and closely spaced children. As these people lose their federal medical and financial assistance (they were originally receiving 3 years but that has now been reduced to 18 months of assistance) increasing numbers are turning to the City and community agencies for health care. These are people who traditionally have never received much health care and often have considerable health needs, many for example have never received any dental care.

o Indochinese Refugees

Exacerbating all these problems is the fact that King County (and Seattle in particular) has become a "magnet" for unskilled, often illiterate Indochinese refugees from all over the county. Our location near the Pacific Rim countries also encourages refugee movement directly to this area from Southeast Asia. Washington State has the third largest refugee population in the country. Of the 25,000 refugees in the state, 16,000 or 64 percent live in King County. Many of these are concentrated in the Rainier Avenue corridor in the Southeast corner of Seattle. Many of these persons will need multiple, intensive and long-term services before they will be able to compete productively in the local labor force. Further complicating their assimilation into our work force is the reduction of their financial and health assistance from 3 years to 18 months. When this reduced assistance went into effect this June we had over 6,000 refugees in Seattle and King County who were terminated from all federal cash and health assistance. Needless to say these people have had to turn to other charitable resources such as community health clinics, food banks, etc. in order to survive. It makes no sense to cut off services to people who have little or no English speaking ability and very limited job skills.

Summary

Mr. Chairman, in my testimony I have attempted to present a comprehensive view of the effects of unemployment on my community. Despite some of the indices and background I have provided, I believe it only partially conveys what unemployment means for Seattle. There are more areas that need to be addressed. As a starting point I think we need better statistical systems capable of accurately reflecting the effects of unemployment on our citizens and their communities.

In the past, the Federal government used to pitch in to assist communities, states and regions suffering cyclical downturns in their economies. Counter-cyclical assistance, for example, was a program permissable under the "old federalism." There was a recognition that a national purpose would be served by shoring up economies shouldering a disproportionate share of any national recession. In the Northwest, this burden has been substantial and unrelenting.

I am not confident that our region can continue for an extended period of time without some federal assistance.

I do not want to leave you with the impression that we are incapable of helping ourselves since it is not true. It is simply that the need exceeds our ability to prevent permanent damage to our state and community. The Seattle/King County United Way spearheaded a special fundraising campaign, Project Transition, specifically to lessen the blow of reduced federal funding for community agencies providing basic services such as emergency food and shelter, chore services for the elderly and outpatient health care. This effort raised $1.4 million. We lost, however, well over $50 million in federal reductions for these types of services. In another related effort focused on summer youth employment, private corporates raised $300,000 this summer. Although admirable, this program barely made a dent in the waiting list of 4,000 low income youths unable to get a summer job through the regular CETA summer youth program.

We simply cannot meet the needs of the unemployed by ourselves, to begin with, we do not have the taxing authority or the overriding responsibility the Federal government has. Yet from what I understand about the President's new Urban Policy report, we should expect that the marketplace will determine the fate of our communities. To intervene into these circumstances is to thwart or to pervert the working of the marketplace. Yet as a city official and a former banker, I have watched a growing pattern of relief packages for ailing industries. While banks renegotiate International Harvester's debt, unemployed workers lose their homes. As major corporate and special industry benefits are enacted and preserved, cities must confront growing service demands with an ever-shrinking pool of public resources. The inconsistency is one in which industry, while receiving economic relief, does not re-employ. Throughout the past twelve months, the nation has turned its sole attention to federal budget deficits. Deficits are the symptoms of an economic illness, the unemployed are the victims. We should consider such remedial measures as an infrastructure and energy public works program. How much longer can we continue to ignore the needs of our growing unemployed?

Mr. Chairman, your Committee's hearing today is an important step in restoring some balance in the national debate on the economy. In adopting a course to steer the nation out of this recession, the current and future needs of the unemployed must be addressed by the Congress.

I thank you for this opportunity to appear before the Committee.

Table I

NONAGRICULTURAL WAGE AND SALARY WORKERS EMPLOYED IN THE SEATTLE-EVERETT METROPOLITAN AREA
(King and Snohomish Counties)

Industry	Mar. 1982	Feb. 1982	Mar. 1981	Change: Feb. '82- Mar. '82	Change: Mar. '81- Mar. '82	Percentage Change: Mar. '81- Mar. '82
TOTAL 1/	755,700	755,100	779,400	+ 600	- 23,700	- 3.04
Total Manufacturing	163,900	164,600	170,600	- 700	- 6,700	- 3.93
Durable Goods	135,900	136,600	141,400	- 700	- 5,500	- 3.89
Lumber and wood products	8,600	8,500	9,500	+ 100	- 900	- 9.47
Furniture and fixtures	1,500	1,500	1,600	0	- 100	- 6.25
Stone, clay and glass products	3,100	3,100	3,200	0	- 100	- 3.13
Primary metal industries	4/ 2,600	4/ 2,600	2,900	0	- 300	-10.34
Fabricated metal industries	6,700	6,700	7,000	0	- 300	- 4.29
Machinery (except electrical)	7,600	7,600	8,100	0	- 500	- 6.17
Electrical machinery	8,600	8,600	8,800	0	- 200	- 2.27
Transportation equipment	89,900	90,700	93,000	- 800	- 3,100	- 3.33
Aircraft	77,400	78,200	79,600	- 800	- 2,200	- 2.76
Shipbuilding and repair	9,000	9,000	9,400	0	- 400	- 4.26
Other transp. equipment	3,500	3,500	4,000	0	- 500	-12.50
Other durable goods	7,300	7,300	7,300	0	0	0.0
Nondurable Goods	28,000	28,000	29,200	0	- 1,200	- 4.11
Food and kindred products	9,700	9,700	10,000	0	- 300	- 3.00
Apparel	3,000	3,000	3,300	0	- 300	- 9.09
Paper and allie. roducts	3,100	3,100	3,500	0	- 400	-11.43
Printing and publishing	8,700	8,700	4/ 8,800	0	- 100	- 1.14
Chemicals and allied products	1,200	1,200	1,300	0	- 100	- 7.69
Other nondurable goods 3/	2,300	2,300	2,300	0	0	0.0
Agricultural Services and Mining	3,100	2,800	3,000	+ 300	+ 100	+ 3.30
Construction	32,500	32,400	36,700	+ 100	- 4,200	-11.44
Transp., Comm., and Utilities	50,100	50,200	51,500	- 100	- 1,400	- 2.72
Transportation	30,300	30,400	32,200	- 100	- 1,900	- 5.90
Communications and Utilities	19,800	19,800	19,300	0	+ 500	+ 2.59
Wholesale and Retail Trade	182,600	182,500	4/184,900	+ 100	- 2,300	- 1.24
Finance, Insurance and Real Estate	57,600	57,600	57,100	0	+ 500	+ .88
Services	4/149,600	4/149,300	152,800	+ 300	- 3,200	- 2.09
Government	116,300	115,700	122,800	+ 600	- 6,500	- 5.29
Federal	17,100	17,200	18,400	- 100	- 1,300	- 7.07
State and Local	99,200	98,500	104,400	+ 700	- 5,200	- 4.98
Educational Institutions	57,900	57,300	62,100	+ 600	- 4,200	- 6.76
(WORKERS IN LABOR-MANAGEMENT DISPUTES)	200	300	400	- 100	- 200	-50.0

1/ Excludes proprietors, self-employed, members of armed services, workers in private households and agriculture. Includes all full - and part-time wage and salary workers receiving pay during pay period including the 12th of the month.

2/ Includes instruments and related products, and miscellaneous manufacturing industries.

3/ Includes textiles, petroleum products, leather, and rubber and plastics.

4/ Employment affected by labor-management disputes.

·epared in cooperation with the Bureau of Labor Stat: :s and the Employment and Training Administration. Source: Washington State ployment Security

MICROFILMED FROM
BEST AVAILABLE COPY

Blank Page

MICROFILMED FROM BEST AVAILABLE COPY

TABLE II

KING COUNTY
(From FY1982 Basic Planning Table)

		Estimated number of persons unemployed for 15 weeks or more	Percent	Total Population Planning Year 1982	Percent
Total, for Area:		33,510	100.0	1,319,330	100.0
DEMOGRAPHIC GROUPS					
Sex	Male....................	19,520	58.3	655,350	49.7
	Female..................	13,990	41.7	663,980	50.3
Age	19 and Under...........	4,590	13.7	375,200	28.4
	20 - 21	3,000	8.9	53,110	4.0
	22 - 44	22,440	67.0	510,840	38.7
	45 - 54	2,210	6.6	126,610	9.6
	55 and Over............	1,270	3.8	253,570	19.3
Race/ Ethnic Group	White (not including Hispanic)............	20,390	60.9	1,147,620	86.9
	Black (not including Hispanic)............	6,190	18.5	57,130	4.3
	Hispanic...............	1,630	4.9	28,340	2.3
	American Indian or Alaskan Native.......	1,130	3.2	13,350	1.0
	Asian or Pacific Islander............	4,170	12.5	68,590	5.2
	Other..................	---		4,300	.3
	INA....................	---		---	

Source: Washington State Employment Security Department
Research and Statistics Unit

115

TABLE III

TOTAL UNEMPLOYMENT AND UNEMPLOYMENT RATES IN THE SEATTLE-EVERETT AREA BY AGE, SEX, AND RACE 1970 AND 1982

	TOTAL UNEMPLOYMENT						UNEMPLOYMENT RATES					
	Total		White		Nonwhite		Total		White		Nonwhite	
	1970	1982	1970	1982	1970	1982	1970	1982	1970	1982	1970	1982
BOTH SEXES												
Total.............	49,651	56,000	46,297	47,040	3,354	8,960	8.2	6.3	8.1	5.9	9.8	10.3
16 - 19	7,413	10,530	6,921	8,610	492	1,920	16.8	15.1	16.6	13.8	21.3	25.5
20 - 24	9,675	12,740	9,108	10,820	567	1,920	11.9	9.6	11.8	9.0	12.5	15.3
25 - 34	9,899	15,790	9,180	13,500	719	2,290	7.1	5.8	6.9	5.5	8.8	9.1
35 - 44	6,810	6,940	6,219	5,720	591	1,220	5.7	3.8	5.5	3.5	8.3	7.1
45 - 64	13,372	8,310	12,602	7,100	770	1,210	6.6	4.0	6.6	3.8	7.1	5.8
65 and Over.......	2,482	1,690	2,267	1,290	215	400	12.9	7.4	12.7	6.5	15.9	12.6
MALE												
Total.............	30,133	30,560	28,019	25,380	2,114	5,180	7.9	6.2	7.8	5.7	10.5	11.3
16 - 19	4,283	5,080	4,042	4,390	241	690	17.5	14.5	17.4	13.7	19.6	22.3
20 - 24	5,839	7,060	5,513	6,140	326	920	14.0	10.7	14.0	10.1	14.6	17.6
25 - 34	6,140	8,410	5,665	6,640	475	1,770	6.5	5.7	6.3	5.0	9.9	12.0
35 - 44	3,834	3,720	3,473	3,020	361	700	4.9	3.5	4.7	3.1	11.7	7.5
45 - 64	8,325	5,020	7,793	4,280	532	740	6.5	4.1	6.4	3.8	7.9	6.6
65 and Over.......	1,712	1,270	1,533	910	179	360	14.4	9.1	14.0	7.8	19.0	15.1
FEMALE												
Total.............	19,518	25,440	18,278	21,660	1,240	3,780	8.6	6.5	8.6	6.2	8.8	9.3
16 - 19	3,130	5,450	2,879	4,220	251	1,230	15.9	15.6	15.5	13.9	23.2	27.7
20 - 24	3,836	5,680	3,595	4,680	241	1,000	9.6	8.5	9.6	7.9	10.5	13.4
25 - 34	3,759	7,380	3,515	6,860	244	520	8.2	6.1	8.5	6.2	7.4	4.9
35 - 44	2,976	3,220	2,746	2,700	230	520	7.3	4.3	7.2	4.0	7.8	6.6
45 - 64	5,047	3,290	4,809	2,820	238	470	6.8	3.9	6.9	3.8	5.8	4.9
65 and Over.......	770	420	734	380	36	40	10.5	4.7	10.6	4.7	8.8	5.0

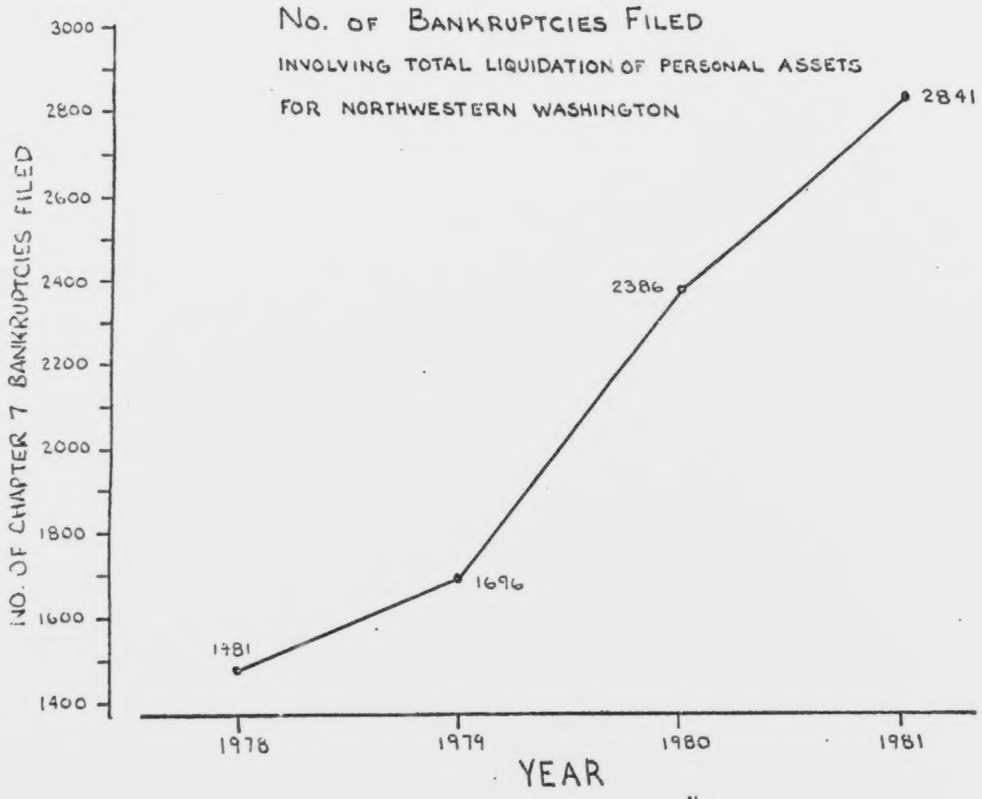
TABLE IV

PROJECTED UNEMPLOYMENT RATES
SEATTLE-EVERETT SMSA
ESTIMATED 1982 ANNUAL AVERAGES[1]

	All	White	Non-White
Total For Area	9.7	9.1	15.9
Demographic Groups			
Sex			
Male	9.5	8.8	17.4
Female	10.0	9.5	14.3
Age			
16-19	23.2	21.2	39.3
20-24	14.8	13.9	23.6
25-34	10.6	8.5	14.0
35-44	5.9	5.4	10.9
45-64	6.2	5.8	8.9
65 and Over	11.4	10.0	19.4

[1] Source: Washington State Employment Security Department, 1982 (Adjusted by ETC to reflect differences in total unemployment rate from time projections were made to the present).

Table V



No. of Bankruptcies Filed
involving total liquidation of personal assets
for Northwestern Washington

Your
Seattle
Department of Human Resources

Chairman FAUNTROY. I thank you so much, Councilman Rice. We will include your thoroughly researched and documented statement in the record. It certainly enhances what you have in fact stated here in the hearing.

Mr. RICE. Thank you.

Chairman FAUNTROY. We will move now to our third panelist, Mr. Colley, from the city of Nashville, Tenn. We are so pleased to have you. We look forward to your testimony as well, as one who has a front-line responsibility for handling many of these programs that are affected and that impact the plight of the unemployed. We have your statement as prepared, and we will look forward to your testimony in whatever manner you may choose to make it.

STATEMENT OF PATRICK A. COLLEY, DIRECTOR, MAYOR'S EMPLOYMENT AND TRAINING RESOURCES AGENCY, CITY OF NASHVILLE, TENN.

Mr. COLLEY. Thank you, Mr. Chairman. I will try to condense my testimony considerably and skip around a little to try to hit what I think are the high points.

Let me first describe Nashville's economic base because I think Nashville is not recognized for what it is. It is a diversified economy. I am sure all of you have heard of Music City, U.S.A., and you know that is Nashville. What you may not be aware of is that the Opry is a subsidiary of NLT, an insurance company. Insurance is one of the larger industries in Nashville, but it is not the largest employer. The largest employing industry is printing and while the printing industry has the largest number of employees, it is not the largest single employer. After State government, that is Vanderbilt University, which has a medical school. Nashville is also a medical center. We have two medical schools in Nashville, Vanderbilt University and Meharry. Meharry has produced close to 50 percent of all of the black doctors in the United States.

So we have a very diversified economy, one that has in the past been very recessionproof. The first question concerns the makeup of unemployment. And let me just say that I will not go through these numbers that are in the paper. They are obviously out of date. That is one of the problems you have at the local level trying to anticipate how to deal with problems. You can never get a handle on what the real problems are. The real numbers are not there; you can get numbers from 2 or 3 years ago, or you can get someone's projected estimates of what the numbers may be. But to get the kind of detailed numbers you ask for in your letter, of age, race, sex, marital status, industry, that is just not available at the local level. This makes it really tough from that standpoint at the local level to deal with it.

One of the things you mentioned that I wanted to point out, Nashville is probably the best island that you are talking to today in terms of the unemployment rate. And it is certainly better than the State of Tennessee. The State of Tennessee's unemployment rate is somewhat over 10 percent. Nashville's currently is, in June, 7.4 percent. There are a couple of interesting things in the way you asked the questions in comparing between the 1974 and the 1975 recession and the 1981 recession. In June 1974, we had a 7.3-percent unemployment rate. To make that number real, that amounted to 15,000 people out of work, out of a labor force of 213,000. In mid-1979, which was the good period inbetween these two recessions, we had dropped down to a 4.2-percent unemployment rate, something that I am sure is envied by a lot of people. We had only 10,000 people out of work out of a work force of 244,000. The work force had thus gone up approximately 30,000 from what it was in the recession. In 1981, we have a 7.4-percent unemployment rate. That is 17,000 people out of work, but the work force has dropped back down to 232,000, which meant there were another 10,000 people lost from the work force who are no longer counted as unemployed. Thus, you can see that it is possible to play all kinds of games with the numbers. Nashville, numerically, is not nearly as bad as a lot of cities; however, practically, we are.

The value of new loans through May is down some 38 percent this year over what it was last year. The bankruptcy rate is way up. The U.S. District Court for the Middle Tennessee District reports a steady upward trend in bankruptcies, both personal and business, for the past 3 years. Contrasted with the 2,960 total bankruptcies filed in all of 1979, by the end of June 1982, there were already 2,917 total filings. This exceeded last year's record of 2,850 and 1980's 2,712 at this same point. More telling is the number of business bankruptcies, which at this point stands at 519, more than all of 1979 and already nearly equal to 1980's total of 589. The staffs at the local unemployment offices are saying they are seeing more and more professionals looking for jobs.

Many people do not recognize that it is the public sector—local government, State governments, and the Federal Government—that provide the basic infrastructure on which business thrives. Business does not build roads. Business does not build sewer systems. Business does not build city services such as fire and police that maintain the safety and health of citizens. However, business cannot survive if these services are not available and the infrastructure is not available. What is happening now with the combination of recession and loss of locally derived revenues is further compounded by the significant loss to cities of Federal revenues for infrastructure development.

In terms of spending on social services, which was another of your questions, I think what happened is that Nashville has seen a much greater increase in the demand for services. Our response, due primarily to the lack of revenues, has been to do as is currently being done in the Congress of the United States with regard to food stamps, medicare, and medicaid; that is, raise the limits for those who need the program. In other words, we have reduced the number of eligible people. For example, in the past we had a general assistance program which provided cash assistance to people who were temporarily unemployed because they had lost their jobs through no fault of their own. Recently, due to budget constraints in social services, we have revised the rules so that we provide cash assistance only to unemployable people. Therefore, people who are simply out of work and have no cash income are now turned away.

In essence, what we have been forced to do is reduce the services that are provided to meet the available revenues. There is no question that the demand for services has increased, and the number of applicants for those services has increased. Commensurately, the number of turndowns has increased. But because of the problem of raising revenues, coupled with the loss of Federal program revenues, we have simply reduced the services to those most in need.

Another new development in the phenomenon of economic hard times in Metropolitan Nashville is the appearance of the "new poor." Bill Moynihan, director of metropolitan social services, which provides emergency assistance, commented, "We are seeing more and more of these 'new poor'."

For example, he cites cases such as a real estate salesperson who called last week because she could not make the $300-per-month payment on her mortgage. "We do not usually hear much from homeowners who have been unemployed as real estate agents in our business. But that is what is happening nowadays," Moynihan observed. "One guy also came in whose small business had folded. We had to tell him that since our budget was cut in 1980 we have had to respond only to unemployables, not all unemployeds." The director of a religious charity organization says, "It is becoming a bit embarrassing. Some of our middle-class volunteer staff people report that they are now seeing friends coming into the office for aid." Last week one applicant explained, "I am so embarrassed, I have never had to ask for help from anyone before; I am just against welfare, so the church is the only place I can turn."

This year, as in the past, the mayor requested the departments to submit what we call "continuation budgets"; that is, budgets which provide no increase for services, no additional services, no new services, but simply maintain the status quo to compensate for inflationary changes in the budget. This year the mayor had to cut the budget of the departments some $9,259,000. This means, of course, that the departments have had to absorb those cuts by reducing those services. Health and hospitals' share of the $9 million was over $1½ million. The social services department absorbed another $159,000 of that cut.

So as you can see, the cuts to social service programs locally are significant. When you couple that with the cuts that occurred and other cuts that are proposed to occur in Federal funds, you can see that for the citizens who are most in need, times are really getting tough.

Patricia Couto, director of Nashville's Crisis Intervention Center, reports some similarly troubling trends in calls being received at their center. By the end of last year they reported a 125-percent increase over the preceding year in calls directly related to individuals' inappropriate reactions to stress—alcohol abuse, spouse abuse, child abuse—the largest share of these reported circumstances stemming directly from economic hardship.

"The problem," Mrs. Couto also observed, "is not only that we are getting more bridge-jumper desperation calls; it is compounded by a lack of resources. In the past we could always find some agency that could feed a hungry family or provide some emergency cash for rent or groceries, but now even food agencies are dry." The Second Harvest Food Bank, for example, which serves as a joint clearinghouse for the distribution of donated foods to the needy, ran out of food for 2 weekends 3 weeks ago. The donations had slackened.

Let me, in closing, add my request to the many others that I am sure you have heard in regard to the need to get the economy moving again. Let me say that I sympathize very much with your problem. I recognize that one of the great needs is to reduce interest rates. I do not understand how you are going to be able to do that. When the monetary policy is tight, to hold down inflation the bankers say we have to charge more interest because there is less money available. On the other hand, if monetary policy is loosened up so that more money is available, then the bankers say we have to charge more interest because inflation is coming. I do not know how you deal with that, but I wish you luck in trying.

I appreciate the opportunity to be here.

[The prepared statement of Mr. Colley follows:]

TESTIMONY

Before

THE U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
Of The
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

By
Patrick A. Colley
Nashville and Davidson County, Tennessee

August 17, 1982
10:00 A.M.

Good morning, I am Patrick A. Colley, Director of the Mayor's Employment and Training Resources Agency. I am most happy to be with you this morning to discuss the impact of the recession on Nashville's economy. Before I do that, let me briefly describe Nashville's basic economic mix. I am sure all of you recognize "Music City USA" as Nashville. But are you aware that the "Grand Ole Opry" is a subsidiary of NLT -- a major insurance company homebased in Nashville? While insurance and banking are strong components of the Nashville economy, they are not the largest employer. The largest employment sector in Nashville is in the Printing Industry. Even though this sector has the largest number of employees, the largest single employer, after the State government (Nashville is the State Capitol), is Vanderbilt University. Nashville is a Regional Medical Center and has two medical schools, Vanderbilt and Meharry. Meharry has produced close to fifty percent (50%) of the black doctors in the United States.

I could go on and on describing the mix of the Nashville economy, suffice it to say that we have a very diversified economic base, one that in the past has been very recession resistant. In the past, Nashville's economy has tended to lag behind the national economy. We would feel the impact of the recessions later than other areas but would also be later in our recovery. Understanding that let me begin to try to respond to your specific questions.

Your first question concerns the makeup of unemployment. Let me first qualify my response by saying that data of the nature you ask is not developed for local areas. I will give you some best guesses on these factors but please understand that there are no hard data made available on a current basis.

The following information is based upon data from the Tennessee Affirmative Action Plan, Annual Averages, 1980. This will reflect the distribution of the unemployed by race, sex and type of occupations last experienced. Unfortunately, no information was available on age or marital status.

The average unemployed population during 1980 was 12,000 persons, of a total labor force of 239,770. The unemployed population breakdown consists of 8,880 white and 3,120 nonwhite. By race and sex it was determined to be white male 5,520; nonwhite males 1,524; white females 3,360; and nonwhite females 1,596.

From the total unemployed population, last occupations held were identified for only 10,970 individuals. The following eight (8) occupational areas and number unemployed included:

Professional, Technical and Managerial	987	9.0
Sales Workers	625	5.7
Clerical and Kindred	1634	14.9
Crafts persons, forepersons & Kindred	1831	16.7
Operatives, including transport	2852	26.0
Laborers, except farm	1228	11.2
Farmworkers	10	0.1
Service Workers	1799	16.4
TOTAL	10,970	100.0

It should be significant to note that during the first six (6) months of 1982, Nashville and Davidson County experienced an average unemployment rate of 6.8 percent or 16,057 total unemployed population. As of this date, there is no unemployment population distribution available. It can be readily determined that over an 18 month period the unemployment situation in Nashville and Davidson County has experienced an obvious increase.

NOTE: 1982 unemployment figures were obtained form the CPS Labor Force Summary (Current Population Survey).

Your second question deals with the impact on investments and expenditures. On Thursday of last week, it was announced that the production of "Fire Starter" a movie based on Stephen King's novel that was to be filmed in the Nashville area was being delayed because funding for the film could not be obtained. This is simply the latest announcement of this kind. There are many real estate development projects that have been placed on hold lately because financing could not be found, such as the Nashville Gulch area, which comprises some 70-80 acres, and whose development was planned to be a $100 million project, consisting of hotel/motel accommodations, shopping mall, and ancillary facilities. Another aborted project was planned constr@ction of a 600,000 square foot office building in downtown Nashville.

As you may be aware, Tennessee's unemployment rate has been exceeding ten percent (10%) for the past several months. If you look at the makeup of the Tennessee economy, and this is also true of the Middle Tennessee area, you find that much of the economy is closely related to the construction industry. Much of our manufacturing is the production of goods that go into construction. As a result, the lack of capital for construction -- coupled with the reduction in Federal funding for construction -- has significantly increased the impact of the current recession.

The value of new loans through May is down some thirty-eight percent (38%). The bankruptcy rate is way up. The United States District Court for the Middle Tennessee District reports a steady upward trend in bankruptcies, both personal and business, for the past three (3) years. Contrasted with the 2,960 total bankruptcies filed in all of 1979, the end of June, 1982, saw 2,917 total filings already for this year, exceeding the previous year's record of 2,850 and 1980's 2,712 at the same point. More telling is the proportion of business bankruptcies (all chapters of the code combined), which at this point (end of July) stands at 519, more than all of 1979 and already nearly equalling the 1980 total of 589. The staffs at the local unemployment offices say they are seeing more professionals coming in looking for jobs than ever before.

One significant impact that this recession has had has been a significant reduction in the ability of our city to raise revenues. Not only have the revenues not met our expectations in terms of growth and taxes, but in the last year and one half the city has held two referendums on increased taxes, one last year having concerned an increase in the tax rate to go to support the school system. This tax was beaten by a margin of something like 4-1. Earlier this month, there was a proposal for a 1¢ increase in the gasoline tax locally to support the Metropolitan Transit Authority, to prevent them from having to reduce bus service. This tax was beaten by a margin of 2-1. As you can see, we are making some progress in trying to get the public to provide the city with necessary revenues to maintain the current service levels, but we are not succeeding at this point.

Let me say as an aside here, in general, Nashville is in a very good position to attract business and to continue to develop and expand when and if money is ever available for those kinds of activities. There is one problem Nashville has wrestled with for the last several years, the problem of expanding its sewer system. It wrestles every year, as does the State, with the maintenance of the roads, maintenance of the bridges, all of those things which provide the economic base that this country is built on.

Many people don't recognize that it is in fact the public sector local governments, State governments, Federal government, that provides the basic infrastructure that business thrives on. Business does not build roads, business does not build sewer systems, business does not build city services such as fire and police that maintain the safety and health of the citizens. However, business cannot survive if these services are not available and the infrastructure is not available. What is happening now with the combination of the recession and the loss of locally derived revenues is further compounded by the very significant loss to cities, of Federal revenues for this infrastructure development.

I spoke earlier concerning Tennessee's relationship between construction and manufacturing. When the earlier recession of '74-'75 began, Tennessee weathered it fairly well. To a large extent this was because the Federal government at that time had stepped in and significantly expanded infrastructure construction and that provided a great stimulus to the State of Tennessee and the Nashville economy as well. And as a result, we did not feel that recession nearly as hard as we are feeling this recession. As I said earlier, Nashville's economy is very diversified.

Nashville's past robust economy rested on services, particularly a) government, b) health, and c) education. We have relied little on manufacturing compared with other Tennessee and U.S. Metropolitan areas.

Now, all three of these mainstays have shrunk. Government has been "Proposition 13ed," either by Reaganomics or by local revenue crunches. Health has plateaued-out since the late 70s, especially since government investment in health services has shrunk. And education is on the shrink, too, with enrollments either leveling or declining, and research and teaching staffs shrinking due to reduced public investment in research and education. Nashville has been a public-service-supported area.

Manufacturing has increased recently. The Nissan plant is only the largest and most visible symptom: numerous small manufacturing companies lured here in the 70s are in trouble due to the current recession. With the generally cyclical impact of manufacturing, and Nashville's increased reliance on manufacturing, we're hurting there, too. However, manufacturing is expected to recover faster from the current recession, though education, health, and especially government will lag badly behind through the 80s.

While Nashville has many things going for it, including a very high ranking on all of the indexes of most attractive places to live, until this problem is resolved and the economy begins to pick up significantly, Nashville will, as will the rest of the country, simply slug along in this (I believe it's called) "Trough."

In answer to your third question, the impact and level of employment on local government, I have indicated earlier that our tax receipts are falling far short of our expectations. I have also mentioned the impact as far as the public is concerned in feeling the pinch at home and not being willing to approve the higher tax.

In terms of spending on Social Services, I think what has happened is that while Nashville has seen a much greater increase in the demand for services, our response has been, due primarily to the lack of revenues, to do as is currently being done in the Congress of the United States in regards to food stamps, medicare, medicaid, and that is raise the limits for those who need the program. In other words, we have reduced the number of eligible people. For example, in the past we have had a general assistance program, which provided cash assistance to people who were temporarily unemployed, because they had lost their jobs through no fault of their own. Recently, due to budget constraints in Social Services, we have revised the rules so that we only provide cash assistance to unemployable people. Therefore, people who are simply out of work and have no cash income are now turned away. So in essence what we have been forced to do is reduce the services that are provided to meet the available revenues. There is no question that the demand for services has increased and the number of applicants for those services has increased. Commensurately, the number of turndowns has increased, but because of the problems of raising revenues coupled with the loss of Federal program revenues, we simply reduced the services for those people that are most in need.

Another new development in the phenomenon of economic hard times in Metropolitan Nashville is the appearance of the 'new poor.'"

Bill Moynihan, Director of the Metropolitan Department of Social Services which provides some emergency assistance, commented, "We're seeing more and more of the "new poor."

For example, he cites cases such as a real-estate salesperson who called last week because she could not make the $300 per month payments on her mortgage. "We don't usually hear much from homeowners who've been employed as real-estate agents in our business, but that's what's happening nowadays," Moynihan observed. "One guy also came in whose small business had folded. We just had to tell him that since our budget was cut in 1980, we've had to respond only to the unemployables, not all unemployeds."

The director of a religious charity organization says, "It's become a bit embarrassing. Some of our middle-class volunteer staff people report that they are now seeing friends come into the office for aid." Last week one applicant explained, "I'm so embarrassed. I've never had to ask for help from anybody before. I'm just against welfare, so the church was the only place I could turn to."

Personnel staffing the local Job Service office recently commented in a televised interview on a subjective impression they had regarding a change in the nature of applicants for Unemployment Insurance benefits. More and more, they noted, applicants are not those persons traditionally found in the secondary labor market -- unskilled workers, laborers, etc. -- but, increasingly are educated persons engaged in goods distribution, business, and skilled trades: car salesmen, realestate agents, secretaries, salesmen, and small-business operators. These persons are never reported among the "insured unemployed" that the State compiles each month, since they are not in fact insured. But they are assuredly unemployed.

Self-employed home repairmen, house painters, roofers, brickmasons, and other craftsmen, who advertise their services through classified ads are suffering from the construction downturn and from homeowners deferring maintenance expenditures until they are better able to afford them. Conditions in the real-estate and automotive-related trades (repair work being an exception) need no additional detailing to this Subcommittee.

Divorced women, supporting children and mortgages, are also being seen increasingly in assistance lines: typical is a 34-year-old suburban mother whose ex-husband, a recording engineer, stopped making child-support payments when he was laid off his job and took a much lower-paying position.

This year, as in years past, the Mayor has requested the departments to submit what we call continuation budgets, that is, budgets which provide for no increase in services -- no additional services-no new services, but simply to a maintenance of the status-quo -- to compensate for inflationary changes in the budget. This year, the Mayor had to cut the budget of the departments some $9,259,000. This means, of course, that departments had to absorb those cuts by reducing services. Health and Hospitals' share of that $9 million was over $1.5 million. The Social Services Department absorbed another $159,000 of that $9 million cut. So as you can see, the cuts to social service programs locally are significant. When you couple that with the cuts that have occurred as well as the cuts that are proposed to occur in the Federal funds, you can see that for those citizens who are most in need, the times are really beginning to get tough.

In answer to your fourth question, obviously it's difficult to gather numbers on this. But just from news reports it seems all of these things are deteriorating just last week, we had a police officer shot and killed in Nashville as he went to deal with a domestic disturbance. Domestic disturbance seems to be much on the increase in the city. Other forms of crime are also a concern. Public health, mental health programs are much the same as I described Social Services and Health Programs in that they are seeing an increasing demand for services at the same time they are attempting to regroup because of the impact of cuts from their funding sources.

Patricia Couto, Director of Nashville's Crisis Intervention Center, reports some similarly troubling trends in the calls being received at their center. By the end of last year, they reported a 125% increase over the preceding year in calls directly related to individuals' inappropriate reactions to stress: alcohol abuse, spouse abuse, and child abuse, the largest share of these reported circumstances stemming directly from economic hardship. "The problem," Mrs. Couto also observed, "Is not only that we're getting more "bridgejumper" desperation calls.

It's compounded by a lack of resources: in the past, we could always find some agency that could feed a hungry family, or provide some emergency cash for the rent or groceries. But now, even the food agencies are 'dry.'" The Second Harvest Food Bank, for example, which serves as a joint clearinghouse for distribution of donated foods to the needy, ran out of food for two weekends, three weeks ago. The donations had slackened.

An effect has been that the demand for counseling services and aid has increased, just at a time when resources have been withdrawn and reduced. The role of publicly-supported services supplementing local agencies cannot be underestimated in evaluating the past; reductions in public-sector support at a time of private-sector depression has caught service agencies in a double bind.

Item five is one that perhaps I could go on at length about but I will try to limit my comments by saying simply that without some kind of employment program there is not a whole lot that our city can do about unemployment. The Mayor and the President of the Chamber mailed letters to all of the members of the Chamber of Commerce asking them to hire a youth this summer to supplement our summer youth employment program. The response we got to this was very positive, and initially, we felt quite optimistic that we would be able to find large numbers of jobs. Unfortunately, after the initial impact, the program fell off very rapidly. There were only a few companies that were able to offer employment. These were primarily unskilled jobs in the hotel/motel, and tourist-related industry, looking forward to the summer tourist season when they would need summer help. Unfortunately, most of those places were in the suburbs and not where economically disadvantaged kids lived and therefore, we had some difficulties in making matches and filling those positions that were offered. Many companies that are major employers wrote us saying that with the number of people they had laid off, they couldn't in good conscience offer employment to summer youth. So, the program was not nearly as significant as we had hoped. The cuts in other social programs also have impacted, as I have stated earlier, on the resources that are available to the unemployed.

Let me, in closing, add my requests to the many others that I am sure you have heard in regard to the need to get the economy moving again. Let me say that I sympathize very much with your problem. I recognize that one of the great needs is to reduce the interest rates. I don't understand how you are going to be able to do that. When the monetary policy is tight, to hold down inflation, the bankers say we have to charge more interest because there is less money available; and, on the other hand, if monetary policy is loosened up so that more money is made available, then the bankers say we have to charge more interest because inflation is coming. I don't know how you deal with that, but I wish you luck in trying.

If there are any questions, I would be glad to try to answer them.

Chairman **Fauntroy**. My colleague, Mr. Patman, has the same question, so do not think that you are not in sympathetic company.

Mr. **Patman**. Mr. Chairman, there is another aspect to it, too. They say the deficit is too high so we cannot cut down on the interest rate. The monetary policy has to be tight. There are several rationalizations.

Chairman **Fauntroy**. So you now have additional questions which need answers.

Mr. **Patman**. None of which make too much sense when you consider the overall picture. In fact, the bottom line, if I may say so, is that they are going to charge as high a rate as they can for as long as they can, and the Federal Reserve is helping them.

Chairman **Fauntroy**. Well stated.

Mr. Colley, let me again thank you for your thorough testimony. We will enter your entire statement in the record. I want to thank all three of you for putting some flesh and blood on the national picture that was laid out to us last week by Mr. Norwood of the Bureau of Labor Statistics and Alice Rivlin of our Congressional Budget Office.

I would like to open the questioning by referring to a couple of points you made, Mr. Colley. You raised the question of eligibility requirements for a number of social service programs that otherwise eligible people are being turned away when they seek benefits. In your community where are these people going?

Mr. **Colley**. I think basically they are going without. They are going back to crime to some degree, you know. For the very poor, the ones who have been out of work for a long period of time, they are back to their families, and their families really do not have the resources to support them. It is tough on them. They really do not have any place to turn.

You know, Nashville has a very strong social support system, a very strong private sector community-based social support system. I will just mention a little personal thing, I guess, since I happen to run the program, to illustrate: One of the things that Congress was not aware of, I guess, when we eliminated the public service employment program, was that probably 75 percent of the staff of those public service employees were in community-based organizations that provided services to people, nonprofit organizations like your health centers, your day care centers and those kinds of places. At least in Nashville most of them were in those areas. When you pull that kind of staffing out—and in Nashville we are talking about almost 5 million dollars worth of staffing at one point. It tapered off, of course, down to $2 or $3 million—but that is a reduction in their staff, so it is a reduction in their services, and they are hurting. They are hurting.

Chairman **Fauntroy**. Mayor DeGood, Councilman Rice, do you have anything to add in terms of where the people who are being turned away as a result of the eligibility requirements now are going?

Mr. **DeGood**. No; I think his response was quite appropriate. I think one of the things we have to keep in mind is as various forms of public assistance have withered on the vine, we are in the middle of an economic situation in the private sector which, contrary to some of the expectations in Washington, does not have the capacity right now to take up that slack.

I personally have reservations as to whether the private sector can take up that slack in the best of economic times; but it is clear when business profits are down many small businesses are going belly up. Many social service agencies which were completely private in nature revolving around churches and institutions such as that in the community find their coffers adversely affected as well. At the time we have cut those persons off from public assistance they are least able to garner commensurate private assistance.

Mr. RICE. I echo the same theme. It is difficult to say, but they are not being employed. To take one example, our United Way created a project transition team. It raised $1.4 million to help replace lost Federal dollars, but the loss of Federal dollars in our county was over $50 million in human service funding alone. A special youth employment project raised about $300,000 for summer jobs for youth, but it had little effect when we have a waiting list of over 4,000 youngsters wanting summer jobs.

So, one of my reasons for outlining the State problem is just to show that clearly if your State is suffering an economic downturn and the cities are losing their support bases, it is very difficult for any of these unemployed people to find shelter or other basic services.

We also have an additional problem in the State of Washington. The State has the third largest refugee population in the country. Sixty-four percent of the refugees are in King County, about 16,000; and since June when Federal assistance was cut back from 3 years to 18 months, these people, who speak very little English, who have very few job skills, are lost without any kind of entry-level assistance or any place to find their first jobs. So once again they are back, to quote Mr. Colley, to food banks and emergency shelters, to all of the other kinds of places that do not have money to provide the needed services.

Chairman FAUNTROY. Mr. Colley, you also gave us a new term, the "new poor," and you described their plight in very moving terms for us. I assume that because of their assets, the nature of assistance requested from them is one that you really cannot respond to. Where do they go?

Mr. COLLEY. Let me back up and say again what I said earlier, what we have done in response to our loss of revenues, in response to the decline in the growth of revenues you would normally anticipate to keep up with the budget. I mentioned about the $9 million that the mayor had to cut. What I did not mention is that in the last year we had a referendum on the school tax to increase funding to go to schools. It was defeated 4 to 1. This August, earlier this month, we had a referendum on gasoline tax to go to support the transit authority. We made some progress. It only was defeated 2 to 1. So we do not anticipate any revenues coming in. While in the past Metro Social Services would deal with somebody who had limited assets but could not find work, could work, but needed some temporary assistance; they have changed the rules now. If there is any potential at all for that person to be employed, they tell them, "We are sorry, we cannot help you; you must go somewhere else." They either send them to one of my employment and training programs, or they send them to the State job service or somewhere, but they get a referral. And I guess that is where folks end up subsisting, out there in the great referral world from one social agency to another, being bounced around, telling them, "Well, your problem does not quite fit what our response is. Try over there somewhere. Maybe their response fits your problem." So, they just kind of get shuffled around until where they ultimately end up is probably in one of three local institutions: The local jail where we pay for their subsistence, the local hospital, the local nursing home, which we run. And at that point we do not have an option of rejection.

Basically what happens is that between the time of their initial need until the point that they have deteriorated to the point that they have either been caught for having committed a crime and placed in jail, then we support them. Or, they have become so physically ill that they end up in the hospital, or in the case of the aged, a nursing home, although we have a waiting list of probably 200 people to get into our local nursing home. The city ultimately has to pick up the cost some way, even if it is in burial. We have to pick up the cost because that is where the people are, and I think that is one of the things that I cannot say too strongly. The people live at the local level, and ultimately the local government has to pick up for them. But the local government at the same time will deal within its resources. Last year we closed 17 beds in the hospital because of budgetary constraints. That is the only way we have of fiscally protecting ourselves at the local level, to get out of the business, and you cannot very well afford to do that when you have got a population there in need.

Chairman **Fauntroy**. Thank you. I yield to Mr. Weber for questions.

Mr. **Weber**. Thank you very much.

I want to avoid getting bogged down in too much discussion about economic policy. Economic revitalization is the key to our unemployment situation, and we all recognize it. The three of you have talked about interest rates, inflation, and that sort of thing, but I would like to raise the following questions on which you have particular expertise and experience.

The first is the urban enterprise zone legislation. I know in Toledo we have an incipient enterprise zone that has been put together locally. Second is highways and roads. We just had a gentleman from the University of Toledo win a $12,000 prize last week talking about the cost of bad roads and highways, not just the cost of repairing automobiles but the social costs and the economic costs.

The flat tax proposal—the question of tax increases in Toledo, we are proud, as the mayor has stated, that we were finally able to get a tax increase passed. You were not able to do that in Nashville. We were not able to do it until the second or third try; I have forgotten which.

To what extent that tax increase was facilitated by the fact that we cut Federal taxes a year ago I do not know. It is problematical. I know in most of the paychecks the decrease in Federal taxes was almost exactly balanced off by the increase in city tax and the increase in the State of Ohio's taxes. So that is a question that I think over the long term do you have the cities having the ability to increase taxes as a result of reducing the Federal tax burden?

And then the last question would be: In what ways do you feel, if any, Federal policies have a regional bias? In what ways do you feel Federal policies have an urban-suburban bias, if any, or an urban-rural bias?

And lastly, this is directed just to Mr. Colley very specifically, you mentioned the food bank, have you been able to secure the cooperation of supermarkets and food store chains in giving you surplus foods for your Nashville Food Bank?

Mr. Colley. Yes, that is primarily where they get the food, from supermarkets where they have cartons broken and that kind of stuff. They will get a whole case of food because there is one can in it that is bad or one bottle that has been broken. That is their primary source from the food industry, not from personal donations.

Mr. Weber. I was curious about that in view of the publicity we had in Washington just a week or two ago.

Mr. Mayor, maybe you would like to lead off on the urban enterprise zone legislation or comment on any of the questions or issues that I threw out.

Mr. DeGood. I have been a somewhat tentative supporter of the enterprise zone legislation as conceived by the administration here in Washington. We have had so few urban initiatives come forth from this administration that I would hate to have the mayors of the country react negatively to that sole initiative and perhaps discourage its being more adequately thought through and discourage any future initiatives which conceivably might come from the administration.

It seems to me the enterprise zone legislation as currently conceived presupposes that by adding on to some existing tax incentives which have already been made available to American business in the last year or 18 months, that some small incremental tax benefits at the Federal level will all of a sudden trigger a rash of private investment in the core cities of America. And I think that that particular conception of the process is lacking on two counts: One, I do not think that that is a sufficient incremental benefit to the business community to, in many instances, in and of itself trigger that additional investment in our core cities.

I think that that additional tax incentive coupled with some kind of block grant to the recipient community wherein the local government would have the ability to refurbish the public infrastructure in the immediately surrounding area might well bring about the kind of success which the administration would wish. But why a business would choose to locate in an area which will not be in a physical sense a very attractive area when they clearly have available to them probably two other options in American society—one, to continue to gravitate toward the suburbs, or second, to be a part of some UTAG-funded project in a neighborhood or central business district where the public sector has been given adequate resources to fix up the immediately surrounding area—I think given the other two more attractive alternatives, absence and kind of block grant in conjunction with a tax incentive, that the enterprise zone is unlikely to work as currently conceived.

I think the second deficiency in the analysis which has gone into it heretofore is the idea has essentially been borrowed from our sister democracies in Western Europe, where they are dealing with markedly different kinds of cities than we are.

In Western Europe they deal with cities in which there has not been the suburbanization which has taken place in American cities. And second, quite frankly they are dealing with cities with a homogeneous population; and I think there is additional resistance to going into the core of American cities because of some of the racial tensions which exist, and I think that is another, more difficult obstacle to overcome in terms of trying to encourage private industry to return to some areas which it has long since abandoned.

As it relates to tax burdens, as I pointed out in my testimony, 50 years ago the Federal Government took one-third of the total bite; it now takes two-thirds of the total bite. And for all of the rhetoric which surrounds the new federalism, I question very seriously whether that long run trend which has developed over the past 50 years is about to leave us.

As a local elected official I suppose I have some abstract sympathy for the notion of devolving more responsibility on State and local elected officials; but on the one hand we have had a very large tax cut some 12 months ago and now a discussion of a very large tax increase. And I think without regard to whether the President is successful at passing that tax increase in the next few weeks, that tax increase may look significantly more appropriate to several Members of the House and the Senate come next January as opposed to prior to this November. So I do not see anything in the wind that would indicate to me that that long-range trend of the Federal Government being the largest and most efficient tax collector in the system in the foreseeable future would leave us.

Without regard to whether over the next 10 or 20 years there is some mild reversal of that longstanding trend, the reality is we are dealing with people in these communities who are unemployed today, and we need a response today, and the institution in our system with the resources at its disposal to respond to that need in my judgment is clearly the Federal Government.

As it relates to your third question, Congressman, about the bias of Federal policy, there has been quite a cleavage among mayors, and I think among Governors and some other people at the subfederal level, as to whether there is a tremendous bias for the Frost Belt vis-a-vis the Sun Belt. Frankly, I do not think for the most part that bias is as severe as some of my colleagues believe it to be. I think the bias at the Federal level has clearly been in favor of the suburbs at the expense of the core city.

I was talking to some transportation people in Philadelphia. Roughly 1960 or thereabouts, in the early 1960's they opened up the first linkage of their beltway system and the spoke which took people from the core of Philadelphia to the periphery of the beltway, and on the first day that spoke opened up it exceeded the traffic count expectations for the year 1985.

I make the point only to say that all of these beltways and the spokes attendant to them were originally conceived to some extent to facilitate getting into the downtown areas of American cities. I think they have had the reverse effect. They have made it easier to get out of American cities.

I think the biases and regulations as related to FHA and VHA loans have fostered the acquisition by the middle class of newer housing stock in suburban locations at the expense of continuing to maintain and rehabilitate existing housing stock in our core cities.

And lastly, I think that what the Federal Government has done is disproportionately fund the construction of new sanitary sewer systems in the suburban areas of this country while leaving in increasing states of disrepair the existing sanitary sewer systems within our core cities.

I think quite simply in synthesizing those points what we did at the conclusion of World War II was to collect Federal tax dollars from the urban dwellers in America when America was essentially an urban and rural Nation and had not yet suburbanized. We collected those Federal tax dollars from urban dwellers and redistributed those dollars disproportionately to the suburbs, and it really contributed and hastened the flight away from the core cities to the suburbs.

Mr. WEBER. Flat tax.

Mr. DEGOOD. Flat tax. In all candor, I have not evaluated that nearly thoroughly enough to have an intelligent opinion about it. I would only say that as a complete layman and one who does not view that question of being within the scope of local governments' prerogatives, I certainly would not reject looking at it. I think it may have more merit than perhaps a lot of people of my political persuasion might respond on first blush.

Mr. RICE. There is an economic assumption—I guess I have some problems when you talk about enterprise zones—that there will be more labor-intensive industry located in your area by creating the enterprise zones or with industrial development bonds and the like. But we see on the horizon a trend where there are more and more people who are going to be out of work because it requires a capital investment to put them to work. Few industries are not labor intensive, and therefore, there will still have to be a major training and retraining effort of individuals to meet the need of high technology in other industries you may wish to attract to your locality. Thus I still see a problem and a need for some kind of intensive training or some kind of program for economic stimulus.

That is why I had mentioned earlier about an infrastructure improvement program. We are, in the city of Seattle, just completing a capital preservation and rehabilitation study. We are looking at the level of something like $70 million just for the critical needs. We need support for the infrastructure to make sure that business stays in our community and does not find the suburban areas more attractive. If we do not have that kind of rebuilding of the infrastructure—the roads, the streets, the bridges—we will not be an attractive city for anyone to come in and locate. If, at the same time, unemployment is high, it will not be attractive for business to come in where there are large high unemployment areas. So there is a kind of cyclical problem that occurs in the sense that we have got to be careful about what the stimulus is. We may get a tax base, but we may not have solved the problem of unemployment, which is still of great concern to me. I think on the tax increase question, we are not—I do not know if we are as fortunate or unfortunate as Toledo in the sense that the city of Seattle does not have an income tax in the sense of municipal. We have to rely on sales and property taxes for most of our revenue. If we go ahead in this budget year, the 1983 budget year, and raise the sales tax a half a cent, we will be at 7 percent, which will make us the fourth highest of the major cities. As one person put it, once we get to 10 percent, people will consider an income tax.

I would wish the State had looked at an income tax earlier. One of the things we are facing at the State is that we do not have the tax base, and we are not taxing it in a way which I think is really getting equity for the whole State. It is that sales tax burden, and we even put it back on food this year. So, therefore, it has a disproportionate effect on those people who are unemployed and poor.

The Federal policy that I hope will not go down the drain in all of the discussion is the recognition that there are areas within this country which have disparities which clearly are, during a recessionary period, suffering more than other areas. Therefore, I think it is still important that the Federal Government look at those areas and look at them in the context of where that need is and how much that need is in relationship to a large number of other areas.

Clearly, being the State with the third highest unemployment rate in the Nation, shows that some kind of countercylical assistance—I know that word is not fashionable nowadays—is necessary. And, I think that some kind of Federal public works, for some period, should be seriously considered. The whole Nation is talking about infrastructure, but I think some way of infusing Federal dollars for these type of programs that help urban cities are going to be most important.

I am not an authority on the flat tax. The one thing I am concerned about with the flat tax is how it would be distributed back to the cities and States. I would hope there would be some equity in the way it is handled so that there are some beneficiaries who are also paying.

Chairman FAUNTROY. Gentlemen, as you have responded to Congressman Weber's questions, particularly on tax matters and the extent to which State and local governments are having to pick up the responsibility, I am reminded of the fact that having been born in the District of Columbia and having grown up in our Nation's Capital, I was always accustomed to paying when I got on the bus. When I went to Yale Divinity School in New Haven, on my first day there, I got on the bus and the bus driver said have a seat, and I looked at him somewhat puzzled, and I thought, gee, they are really enlightened in New Haven. They have free public transportation. I sat down, enjoying the scene all of the way down to the square, and when I got there I got up to get off and the gentleman said that will be 15 cents. I said oh, I see, here you pay getting off. I think that is what we are beginning to learn about this whole question of taxation. The people end up paying getting on or getting off. While we may be getting off the Federal train, we will have to get on the State and local train to meet the needs of our people.

Several of our witnesses suggested that unemployment was likely to be more prolonged after this recession than after any previous recession because so many businesses have gone bankrupt and so many industries will have permanently reduced employment opportunities due to mechanization. Do you see this happening in any of your area?

Mr. **DeGood**. Yes, I would say very clearly that is likely to be the case, not only in the instance of Toledo, but I would think a good bit of the economy in Ohio, Michigan and Indiana, that whole portion of the country which is very dependent upon the automobile industry. I think clearly once the recession begins to end throughout the rest of our society, that the automobile industry may be very slow in coming back, and quite candidly, I would anticipate it will in all probability never return to the level of employment at which it once sustained people.

So I think there is a second task before our part of our country. One is to do everything we can to be of assistance to bring the recession to the earliest possible conclusion so the maximum number of people possible can return to work in the automobile industry. But I think we have an equivalent burden, quite frankly, in conjunction with the Federal Government to try to insure that some kind of significant diversification in the economic base in that region of the country transpires as well.

Mr. **Rice**. We have had about a 68-percent increase in the bankruptcy rate, a 66-percent increase in chapter 7, and a 57-percent increase in chapter 13. Our local lending agencies indicate that there is almost a sixfold increase in home loan delinquency rates, as the Boeing industry, the aerospace support industry and the lumbering industry, which have a very real ripple effect for other industries throughout the Washington State, are experiencing a downturn. Those people, as Mayor DeGood says, will not soon come back into the work force. I think one thing that is happening is that many employers are learning that they may be able to live with a smaller work force than they had previously. Thus there is not a need to bring back laid off employees.

As we start looking at cutting public agency personnel, we are also adding to our unemployment problem. I do not see that an economic recovery will really fulfill or meet that need of our unemployed. I see unemployment as sustained. I see it as a longer term problem than I think a quick turnaround in economic recovery.

Chairman **Fauntroy**. Mr. Colley, you indicated that a tax proposal to support schools was defeated by a 4 to 1 margin, and that a proposal to aid the transportation authority was defeated by a 2 to 1 margin. These are, of course, a part of the infrastructure you have all been talking about that is provided by government.

How would you anticipate that these developments affect Nashville's ability to attract business in the future? Will people come to a community that votes down schools and transit taxes?

Mr. **Colley**. I think it is going to be very detrimental in the long run. Nashville has, on the opposite side of that coin, a very low tax rate. We are probably one of the least taxed cities in the United States. Fortunately, because it is a very progressive city and it has a consolidated government for the city and county, we have been able to get by pretty well, delivering comparable services to any other city on a much lower tax base.

But I think when people look at the city, even though Nashville does get up in the low numbers as far as rankings in livability of cities, we are seeing a much larger number of people who make Nashville their home and use its services. The city of Nashville grew, I think, 1½ to 2 percent between 1970 and 1980. The bedroom counties around us grew 20, 30, and even 40 percent. The counties around us do not deliver nearly the services to the people that the city of Nashville does in terms of mass transit, in terms of schools, the quality of the buildings, the quality of the schools or anything else. It is just that folks want to live out in those other counties because they have the perception of high taxes and urban problems that exist in Nashville.

In answer to your other question, Nashville is on the other end of the scale, obviously. We are a Sun Belt city. We are a growing city. We are going to see some growth in Nashville regardless of what the economic situation is, regardless of the local tax base simply because the population is moving in that direction, and Nashville is a good central location for wholesale distribution and that kind of industry. We are probably going to end up doing better simply because of our geographic location. That is going to help us, but it is still not going to resolve the problems that we have.

Chairman FAUNTROY. Gentlemen, I would like you to compare for us the effects of unemployment in your area in this recession to previous recessions you have known. As you may know, it has been frequently remarked that the current rates of unemployment have produced less public protest than in the past. Some commentators have suggested that the reason is so many unemployed people have spouses who are still working. Do you see any evidence to suggest that there is a difference in the response to unemployment in this recession from previous ones? Perhaps that is the reason.

Mr. DEGOOD. I think there is a difference from this recession as compared to the previous recession. The previous one did not go as deep or last as long. Therefore, many of the people who were affected adversely by being laid off had the ability I think—the catch phrase nowadays is "to vote with their feet." We had young people, disproportionately single or disproportionately without children yet, recently married people, in the earlier recession, and some of that flight which has sort of been institutionalized for the past 10 or 15 years in our society, people of the Frost Belt to the Sun Belt I think is accelerated during periods of economic depression.

What we find in this go-round, if you could be conversant with all of the automobile and related factories in the city of Toledo and its immediate environs, you would be aware there are people who have 20 and 25 years' worth of seniority on those lines, and the recession has become so deep that they, too, have been laid off. Those are persons far less inclined by their, I think, psychological makeup, being middle aged persons with children, high school and college age, attempting to finish the process of purchasing a home for a number of psychological reasons and for a number of very legitimate financial reasons, it is almost impossible for them to vote with their feet.

So we find those persons who are accustomed all of their adult life to having been self-supporting and having maintained their individual pride, finding themselves thrown out of work and really sustaining themselves on unemployment benefits. And you see the increasing panic as we begin to encounter people in the community who have exhausted their unemployment benefits.

I think from my perspective, the biggest difference is we now have people unemployed, less able to vote with their feet than we would have found in previous recessions.

Mr. RICE. Our recession took off in 1970, I think you may recall. Seattle was then predominantly a one-industry town during the Boeing bust, as some people call it. The most interesting fact, as we were trying to glean these things, was that the nonwhite unemployment rate is actually higher in this recession than it was in 1970, even though total unemployment is not as high.

Those are some of the statistics that are starting to come out. We find that all unemployment rates are naturally higher, with the rate for nonwhite youth between 16 and 19 at 39.3 percent. This level of minority youth unemployment is probably the most critical in our area.

Mr. COLLEY. I think in Tennessee the Bureau of Business and Economic Studies at UT has done a study. They were asked to try to find out why Tennessee's unemployment rate this time exceeded the national level whereas in previous recessions it had not. It had always gone up, but it never had got to where we were exceeding the national level. This is one of the few times we have outpaced the national level. In talking with the economists there, they indicated that Tennessee's economy is basically construction related—the manufacturing of things and the raw products we produce tend to go into the construction industry. We produce some steel, but it is basically building material steel. There is a lot of sand, gravel and concrete, those kinds of things, so that in the 1974–75 recession, coming on line at about the same time that that recession was beginning was a big release of Federal construction projects, not necessarily in the State of Tennessee, but nationwide, and since our industry is construction related, as is Seattle's, we did not go as deep in that recession as we have gone in this one because in this one, one of the critical places that has gotten hurt worse than anything else is the construction industry. And, no relief has come from the Federal Government this time in terms of any kinds of public works projects.

I think Tennessee's problem is perhaps not unique, but it may be a little different in that our industrial base is so concentrated on construction-related support services.

Chairman FAUNTROY. Your response there reminds me of a sequel to the question I asked you about the turndown of the school and transit bonds in your community. What would be your estimate as to the consequence of that kind of decision on jobs or employment opportunities in the area? That is, how are the employment opportunities for the people there tied to the ability of the community to do infrastructure development, whether it be in the schools or in the roads?

Mr. COLLEY. I think there is no question that one of the problems we are beginning to bump up against right now, is industrial development. Middle Tennessee, you see, sits on limestone. Once you get about 3 foot deep, you hit limestone. That makes it very expensive to lay sewers. We have wrestled for the last 3 years trying to get sewer-rate increases so we can expand the sewer systems. We have a fantastic area for commercial development of about 1,500 acres in Davidson County, in the bend of the Cumberland River, called Cockrill Bend, that we cannot run sewers to so we cannot have any industrial development because we cannot get the tax rate increase on the water-sewer rates to be able to expand them. Yes, it has a definitive impact. If you cannot provide that infrastructure, you cannot get industry to come in.

The Nissan plant that you all may be aware of has moved into Smyrna which is about 30 miles away. Nissan looked at our site, and because we could not get the sewers to it, they went to Smyrna who just recently completed building a new sewer plant that could handle the kind of sewage treatment that they needed. It stayed in the area. It got all of the benefit, and most of the people who are in the higher echelons will probably live in Davidson County. But the plant itself is in the next county because they had the infrastructure there to do it. They are located reasonably close to what used to be the old Sewart Air Force Base, and in the development of that industrial complex they had built some industrial roads to the Interstate System.

Nashville fortunately has six different interstates coming into it, so it is a good transportation location. They located there primarily because of infrastructure, no other reason, because that base is there. If that base is not there, we will not have industry wanting to locate there.

Chairman FAUNTROY. Gentlemen, I have one final question that I would like all of you or any one of you to answer, and then if there are some concluding comments you would like to make, we would be pleased to entertain those as well.

There have been a number of studies on urban economics that have noted a decline in manufacturing activity as a source of jobs and an increase in service-oriented occupations in health, finance, insurance, and government as a source of employment. I wonder if that trend has been one which you have experienced, and how it affects the unemployment and employment rates in your communities.

Mr. DEGOOD. I think, Mr. Chairman, my answer to that question would be somewhat similar to my response to your previous question in that I think we do have a responsibility to increasingly diversify the economic basis of communities such as Toledo which have a historic excessive dependence on heavy manufacturing. And again, I think the local community bears the responsibility to adequately fund those services that we most conventionally associate with municipal government.

I think it is our responsibility for the most part to fund police, fire services, and our local schools, those kinds of things. It has not been easy. I think all of those local tax issues in Toledo have lost two, three, and on occasion four times, before we have been successful in persuading the voters to pass them.

But I think as we move into some of these broader roles for the government to play, that again, that is typically where we will need sufficient assistance from the Federal Government to broaden the scope of local government's activities to encompass something of such a macroscopic nature as moving toward the service industries and away from heavy manufacturing. It is beyond the pale of what has traditionally been done by municipal government, and the reality is the whole tax structure of local government and State government did not contemplate, when those institutional arrangements were devised 50 or 150 years ago, those units of government responding to those kinds of very broad issues. And the only unit of government in our structure which has sufficient flexibility to adapt its tax structure to accommodate funding those kinds of needs, in my judgment, is the Federal Government.

Mr. RICE. I feel much the same way in that sense. While it has not started, I think everyone in every part of Seattle recognizes that there is a shift in manufacturing, but at the same time, the cruelty of it all is with an economic downturn, schools, institutions, loan programs and many other things that are of benefit to people for retraining themselves to enter into that market are being eliminated. This hurts more because it now takes an individual who wants to move into the high tech area more education, more training to get into that whole system. Thus we are running into a catch-22 situation. By cutting budgets and cutting large capital outlays that help disadvantaged people gain education at the entry level, we are depriving them of that extra opportunity to move through.

I would only add one thing, Mr. Chairman. We have and will continue, I think, in Seattle, to tax those things that we can, but I think our capability to continue in this area is limited—especially where I think that there is a wide gap between what the problem is and the tax base to solve it. We will continually need Federal assistance in those areas.

Mr. COLLEY. Nashville is, I guess, perhaps a little different in that our base is primarily service. It is health services, educational services, government services, because it is the State capital. But those things have been hurt. The base for the expenditures is being reduced. So even if you are in the service business already, as Nashville is, you can get hurt when everything else turns down. It goes back to that basic economic premise: your ultimate thing is to produce a good or a service, and that is the base your economy survives on, producing something, and the services actually feed off of the goods. They are a spinoff of that, you know, and I guess what is happening is the knowledge industry is becoming a hard good, but I do not see that spreading universally throughout the economy. I think that is going to take place primarily where you have educational centers. And again, Nashville is fortunate. We have some of that, too. I think that is where you are going to see that kind of growth.

Chairman FAUNTROY. Gentlemen, on behalf of Mr. Weber, myself and the entire membership of Congress, I want to thank you for having made your way here to Washington from your communities to share with us, from the local perspective, the people impact of the country's unemployment picture, and more important, for sharing with us your views on the importance of a continued Federal presence in dealing with these serious unemployment problems facing the Nation.

Thank you again. We appreciate very much your having been here.

The hearing is now adjourned.

[Whereupon, at 1 p.m., the subcommittee adjourned, subject to the call of the Chair.]

○